Leadership and Management as Basic of Success for a VC Company in China
Case Study – Sequia Capital China

Thesis

Lijun Xi

Degree Programme in International Business
International Business Management and Project Leadership

SAVONIA UNIVERSITY OF APPLIED SCIENCES		
Business and Administration, Varkaus		
Degree Programme, option		
Degree Programme in International Business, International Business Management and Project Leadership		

Author(s)		
Lijun Xi		

Title of study		
Leadership and Management as Basic of Success for a VC Company in China Case Study – Sequia Capital China		

Type of project	Date	Pages
Thesis	01.11.2010	62 + 00

Supervisor(s) of study	Executive organisation
Virpi Oksanen	

Abstract

In this thesis, the research problem is to find out how the management and leadership is being used in a Venture Capital company in China.

Firstly, there is an introduction about the Venture Capital, both from global perspective and in China. Then the management method, leadership method and research method are introduced. In the methods section, there is a clear and an easy overview of all important points. The overview covers all the necessary methods for people who want to do the Venture Capital investment in China. There are twenty-one figures about describing the methods and case study analysis represented to help reading and understanding.

The results of the research indicate that environment, culture, personal abilities and company situation should be considered into management and leadership. Each of them can have an effect on related situations. None of them can be left out in the company operations.

Finally, in the CONCLUSION, several points are listed to give an overview of results based on the research.

Keywords
Venture Capital, Management, Leadership, Sequoia China, China

Note

TABLE OF CONTENTS

LIST OF FIGURES

1. INTRODUCTION

Venture Capital can be traced back to the late 19th century, some U.S. private bankers earned a high return by the investment in new industries, from iron and steel, oil to railways. In 1946, Professor George Witt from Harvard University and a group of entrepreneurs from New England established the first Venture Capital Company - the United States Research and Development Corporation. (CNELE, 2006)

In a period of slow development, Venture Capital began to develop quickly in the late 1970s. From 1973, a large number of small Venture Capital partnership companies appeared that the National Venture Capital Association was set up. Now, U.S. is the center of Venture Capital in the world and affects the development of Venture Capital in other countries. (CNELE, 2006)

According to the research report named "Venture Capital and Innovation" by World Economic Cooperation on Science and Technology Policy Committee in 1996, Venture Capital is the investment action to offer the equity capital to new technology companies with development potential or small and medium companies. The investment periodic time is longer than normal investment and it needs three to seven years. In addition, investors will help objects to do the management and strategy plan and so on. (Zhang, 2008, 47)

The research problem of the thesis is "How could management and leadership are used to ensure success in operating a Venture Capital firm in China?" The thesis offers theories on management and leadership and especial environment and culture matters in China.

Secondary information is got by Internet research and literatures. The information includes history of Venture Capital, history of Sequoia China and all the theories. SWOT analysis is also used in this thesis to analyze Sequioa Capital China in a clearway, which through strengths, weaknesses, opportunities and threats.

Quantitative research is used in the thesis. In the thesis plan, there had an interview but in the research period, because the Sequoia in special situation, the interview was cancelled.

The thesis contains five chapters, but they can be divided into four parts. The first part is introduction (chapter 1 and 2) of the thesis, Venture Capital in general and in China. Then is the theoretical research part, which includes chapter 3, 4 and 5. After the theoretical part, there are case study and research results in chapter 5. The last part is conclusion, which to end the thesis.

2. VENTURE CAPITAL

Nowadays, there has no uniform point of view of Venture Capital. American Venture Capital Association thinks that Venture Capital is an equity capital that professional financiers invest into companies with new technology, fast development and huge potential. European Venture Capital Association thinks that Venture Capital means professional investment companies give financial and management support to companies with huge potential and they have not listed. (Liu, Xia, Yan, 2001, 42-44)

Venture Capital is an investment activity composed by capital, technology, management, professionals and market opportunities, which also has 6 features as follow:

1. Venture Capital is an investment which has risks need to be taken and the success rate is low. It is said that in U.S.A, one-third of the Venture Capital projects are total successful, one-third get the balance between income and outlay and one-third lost totally. (Chen, 2008)

2. Though Venture Capital's success rate is low, one successful Venture Capital project will get great reward. Because Venture capital uses combination investment, so it makes one successful investment with high return. (Chen, 2008)

3. All Venture Capital investments are long-term investments. Because insisting in a new technology will take a long time, which may need 3 to 7 years as the pre-period. And then, the same years or even longer time to develop the technology. So Venture capital needs patient and persistence. (Chen, 2008)

4. And because of the long-term investment, Venture Capital must pay attention to ownership interest. If lose money in business, reduction will belong to ownership interest, and the same as profit. So one of features of Venture Capital is it is an equity investment. (Chen, 2008)

5. Venture Capital is a very professional investment activity so all the investors are professional and they must have enough experiences and rich knowledge. They are not only supply finances to projects, but also help scientists and technicians to manage the business. (Chen, 2008)

6. In Venture Capital, there are three fundamental factors: venture capital, venture business and venture investors. It is impossible to miss any one of them to establish a network composed of Venture capital. (Chen, 2001)

There are three different risks during Venture Capital operation, and they are the technology risk, the marketing risk and the management risk.

The technology risk means the non-determinacy of technology in development direction and speed. The pacing factors of technology are non-determinacy of success, non-determinacy of future, non-determinacy of technical life and non-determinacy of supporting technology. (Zhang, 2008, 49-50)

The marketing risk is cause of the difference between the feasibility of new products and new technologies and marketing demands, and different competition ways. It is one of the core risks leads new products or new technologies fail during commercialization period or even lost the project. (Zhang, 2008, 50)

The management risk is the risk of the management parts make project fail. The main management risks are intellectual property rights, risks of human resource. Intellectual property rights will lead two risks in Venture Capital, one is risk of creditor's rights and the other is breach of confidence. Risks of human resource mean that technician leaves and project cannot be finished. (Zhang, 2008, 50)

Due to the characters high risks and unsure information of high-technology companies, it is difficult to finance by capital stock or banks. So the finances sources may be a sort of special and diversified channel to support the need of finances in a company. (Black, Gilson, 1998, 243)

It uses a special institution in a limited partnership to link a long-term funding and an all-round manager. The sources of fund include pension funds, retirement funds and endowment funds and the value of per share can be in millions of U.S. dollars. It limits the personal investment but has advantage on the development of health and rationality of Venture Capital. (Black, Gilson, 1998, 243-277)

It includes the bank holding company and the investment banking. (Black, Gilson, 1998, 243-277) These two kinds of institutions have their own ways of investment and investment objectives.

Government organization supports the development of high-technology companies for promoting the national science and technology development. And it also can promote the development of national small and medium companies and stimulate the economic base. However, this sort of fund source is limited used as seed fund and with the further development, it will be less and less. (Black, Gilson, 1998, 243-277)

From the perspective of strategic development, industry groups would like to provide financial aid to related high-technology companies. They save time on research and analysis and put human resources into more important areas. In the other hand, industry groups can use investment agreements to buyout a high-technology company for obeying the strategies. Even if the investment break down, the loss of industry groups will just the input funds. (Jiang, Zhang, Sun, 2001, 39-41)

Venture business is the objective of Venture Capital. Features of venture business: □small and medium scale; □new technology industry; □uncertain outlook; □with export-oriented. Venture business represents the high-technology industry and all technology innovations have positive effects on the external economics. (Zhang, 2008, 52)

According to the different sources of venture capital, there have different venture investors. Limited partnership may be the best venture investor on long-term investment. (Zhang, 2008, 53)

Limited partnership includes limited partnership and general partnership. Limited partnership is the undoubted investor offers funds and takes the responsibility of debt. General partnership is the venture capital investor and the main investments are technology knowledge, management experience, investment experience and financial expertise. The return is 20% of gross profits and management fee (See in Figure. 1). (Zhang, 2008, 54)

Figure 1 Operational mode of Limited Partnership (Zhang, 2008, 54)
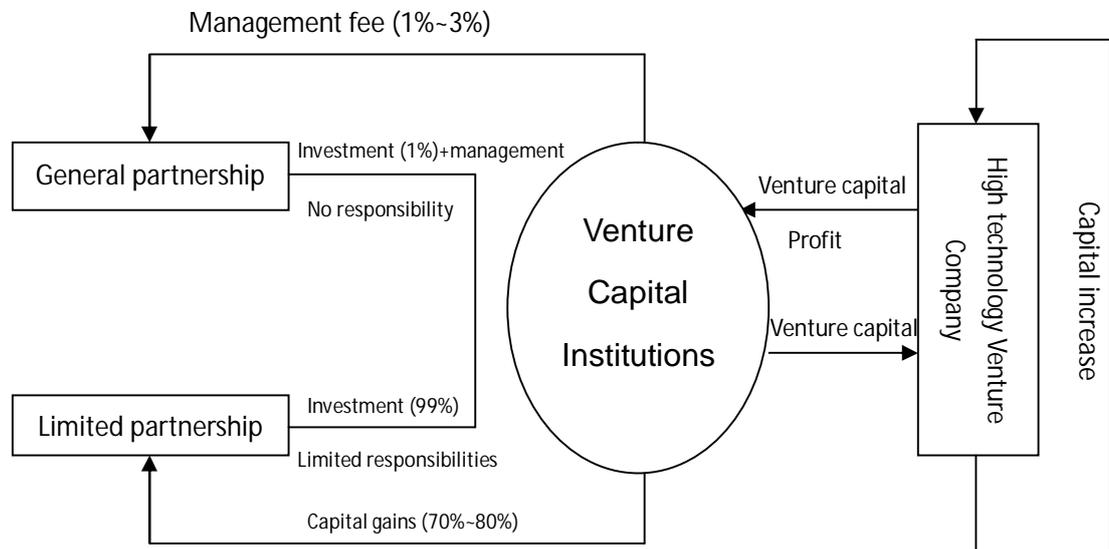
There are two different investment tools, direct investment and indirect investment. Direct investment is investors directly put finances into investment projects, which means the physical assets or buying an existing business investment. Investors can own part or all property and even participate into the management. (SXZYD, 2010)

Indirect investment is inventors purchase corporate bonds, financial bonds or shares and all kinds of securities to obtain the expected certain incomes from investment. Banks belongs to indirect investment, but during the sluggish market period, banks will take a lot of pressure. Venture capital can divert part of finances for relieving pressure on banks. (SXZYD, 2010)

2.1 Venture Capital in China

Venture Capital came into China in the mid-1980s. The first Venture Capital company established in Beijing on 11th January, 1985 named China New Technology Business Investment Co. Ltd. (CNELE, 2006)

In 1986 and 1988, China government implemented the "863 Program" and the "Torch Program", which could be seen as two Venture Capital plans invested by the government (See in Figure. 2). (Zhang, 2008, 65)

Figure 2 The "Torch Program" From 1989 to 1997 (Zhang, 2008, 65)

YEAR	OUTOPUT VALUE	SALES VALUE	PROFIT & TAX	FOREIGN EXCHANGE	ITEM NUMBER
1989	15.3	-	2.8	0.5	-
1990	21.8	-	3.9	1	-
1991	86.5	-	17.7	3.5	-
1992	198.8	129.3	25.1	5.5	-
1993	297.8	256.5	54.5	5	-
1994	521.1	459.9	114.7	8	6443
1995	795.3	692.7	137.2	10.8	7843
1996	954.9	837.8	152.1	9.4	8016
1997	1255.5	1137.7	212.4	17.7	7146

In China, Venture Capital is leaded by government's investment companies. However, government has a misunderstanding that Venture Capital is just a sort of pure finance. As a result, the research and analysis of Venture Capital's substance, exotic environment and system are ignored. Otherwise, although some foreign venture companies began into China, none of those famous international ones came. In general, there has not a perfect Venture Capital network in China. (Zhang, 2008, 66)

The two main subjects of venture are Venture Company and venture fund but nowadays there has not a law to limit them. In China, government acts as go-between to establish venture institutions or does it directly. This kind of structure makes a small size of funds that impossible to support any long-term items. The short-term items do not belong to Venture Capital because the content of technology and the risk are small. And it is hard for venture capital to develop as quickly as possible. (Zen, Lan, Yunpeng, 2002, 45-49)

In China, there might be only about 20% of technology research production could be transformed into commercialization because of the lack of a financial mechanism. During the prior period of technology research, there might have enough principal from Chinese government. But because the development period and the actual service test period need almost 20 times of the prior period, the government cannot offer that. Venture capital is a mechanism which has the ability to solve the problem and take the risk of failure. (Chen, 2001)

The development of new technology has the huge risk because it is impossible to promise the success and returns. Because banks need to avoid risks so they won't supply the loan to new technology. Venture capital may be willing to supply the finances to establish the business. And if succeed, all benefits will be shared but if fail, venture investor will take everything. (Chen, 2001)

So it can be seen that Venture capital is not a violent industry, it takes huge risks in one investment. In daily life, the success rate in Venture capital may be one-third of all investment projects. (Chen, 2001)

Venture Capital in China is still in the early stage of development. Market mechanisms, financial markets and legal systems are all in the incomplete stage (See in Figure. 3). (Zhang, 2008, 67)

Figure 3 The Schematic Drawing of the Development of China's Venture Capital (Zhang, 2008, 67)
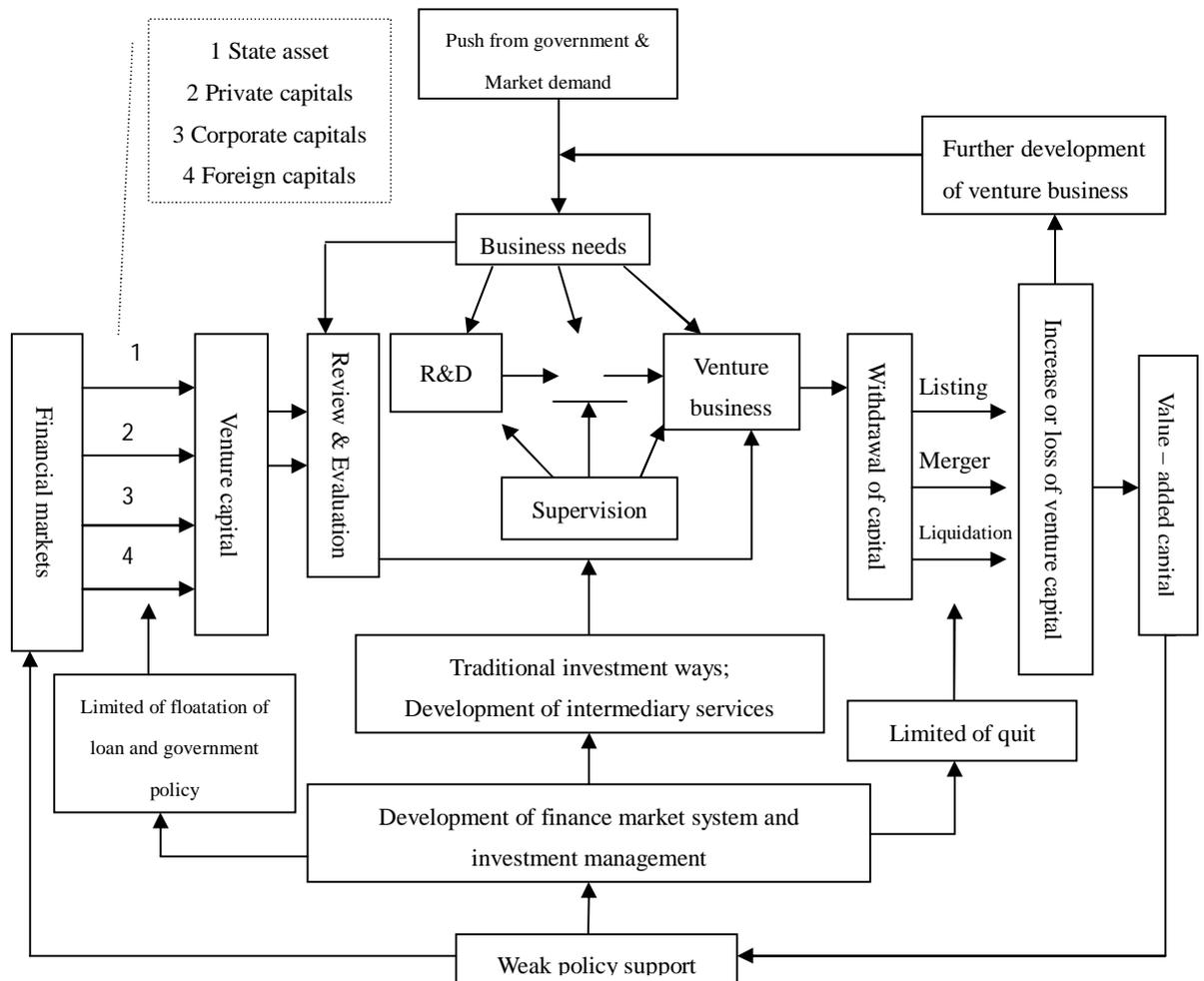
2.2 Legal environment in China

In 1995, the Guidance of Foreign Investment Direction ("Investment Direction Regulation") and the Catalogue for the Guidance of Foreign Investment ("Industry Catalogue") were issued in China. And then, the Industry Catalogue was revised in 1998, 2002, 2005 and 2007, reflecting China's think of reliability in safety between foreign investment and national economic security. (Chen, 2008, 7)

The up to date Industry Catalogue went into effect on December 1st, 2007. Intrinsically, it makes foreign investments into four different types: Encourage Category, Permitted Category, Restricted Category and Prohibited Category. (Chen, 2008, 7)

In addition, some potential industries are restricted in the Industry Catalogue.

- Education Services
  - Establishing higher education institutions - Encourage Category - Limited to equity joint ventures and cooperative joint ventures only.
  - Establishing high education institutions - Restricted Category - Limited to equity joint ventures and cooperative joint ventures only.
  - The basic or compulsory education institutions - Prohibited Category - Prohibited.

- Wholesale and Retail Trade
  - Foreign-invested wholesaler - May not engage in distribution of tobacco and salt.
  - Foreign-invested retail enterprises - May not engage in distribution of tobacco.
  - Both of them - A limited operational term: 30 years, but if they are located in the central western region, it may be extended to 40 years.

- Telecommunications
  - Equity joint venture.
  - Services: basic telecom services and value-added services.
  - Basic telecom services
    - ✓ Provincial-level - the minimum registered capital: RMB 2 billion.
    - ✓ Municipal-level - the minimum registered capital: RMB 200 billion
  - Value-added services
    - ✓ Provincial-level - the minimum registered capital: RMB 10 million
    - ✓ Municipal-level - the minimum registered capital: RMB 1 million

- Internet

  Internet belongs to the value-added telecom services.

- Advertising

  Advertising is in the Restricted Category and majority foreign ownership is permitted from December 11th, 2007.

- Real Estate

  Foreign investors can be in the real estate, but the government has introduced various substantive and procedural restrictions.

  - Higher debt

  - Tightened approval and registration procedures

  - The real estate must has the requirement of commercial presence

  - etc.

(Chen, 2008, 424-425)

In China, establishing a Venture Capital institution mainly bases on Company Law(1993), Law of Trust(Has not issued yet) and Law of Venture Capital Fund(Has not issued yet). In Company Law, there has no special setting about Venture Capital companies with others. (Zhang, 2008, 69)

2.3 Sequoia Capital China

Sequoia was established in U.S. in 1972. Until 2010, it has around 30 funds and the total capital has been over 6 billion US dollars. (Sequoia capital) It has invested more than 500 companies and over 200 ones listed successfully. Otherwise, more than 100 cases about successful exit through mergers and acquisitions. (iFeng, 2010)

As the biggest Venture Capital Company in the world, it invested Apple computer, Yahoo, Google, Paypal, Cisco systems and Oracle. The total market capitalization of Sequoia Capital accounts over 10% of the Nazdaq's. (iFeng, 2010)

In September, 2005, Zhang Fan and Shen Nanpeng established Sequoia Capital China together in China. And now, the offices have been in Beijing, Shanghai and Hongkong. (Sequoia capital, 2010)

Technology and media, consumer goods and modern services, health, industry, energy and environmental protection are the main directions in Sequoia Capital China, but not only these. (Sequoia capital, 2010)

Figure 4 The Distribution of Investment Industry in Sequoia Capital China (ChinaVenture, 2005)

The Distribution of Investment Industry(2005-2010)

Industry	Value
Network Communities	6
Network Advertisements	5
Network Videos	4
Animations	4
Educations and Trainings	4
Wireless Value-added services	4
Software	3
Pharmaceuticals	3
Entertainments	3
Manufacturing	3
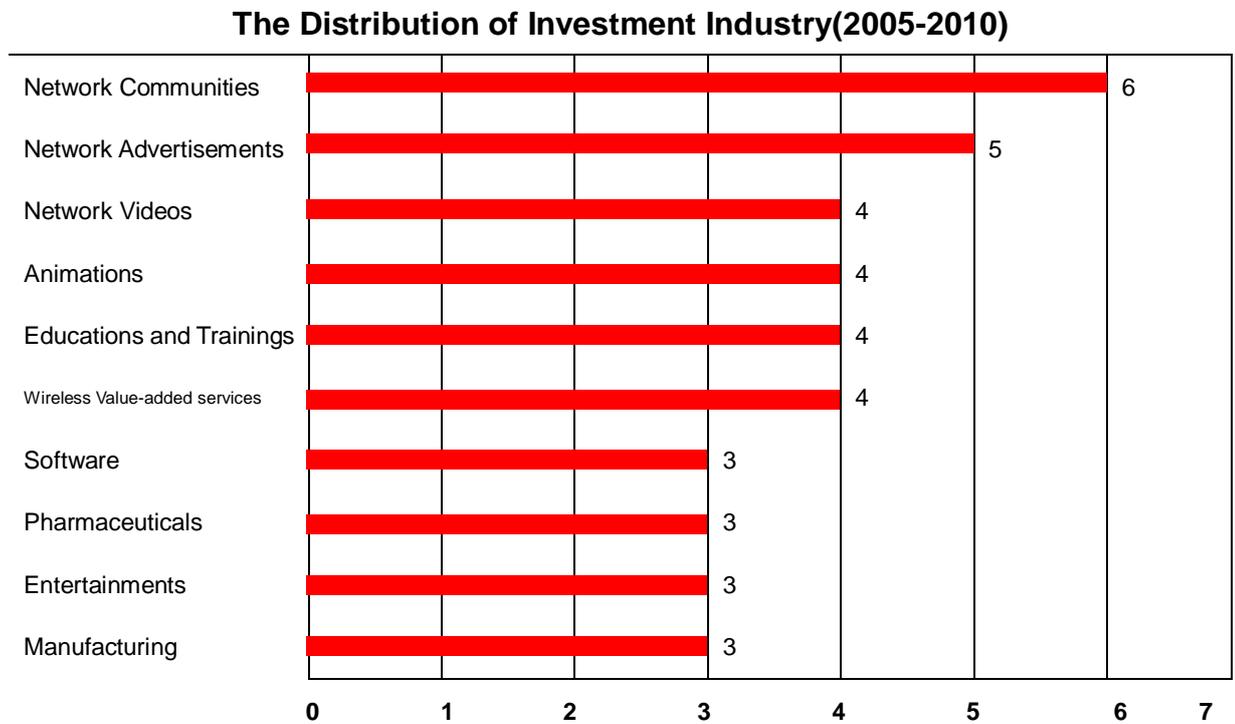
From the figure, it can be seen that Network Communities is the NO.1 industry in all of them. In 2006, from March to April, Sequoia China had invested 22 million U.S. dollars on Network Communities. Until 2010, the total investment has reached 52 million U.S. dollars. (ChinaVenture, 2005)

Figure 5 Projects' Situations in Sequoia Capital China (2005-2010) (ChinaVenture, 2005)
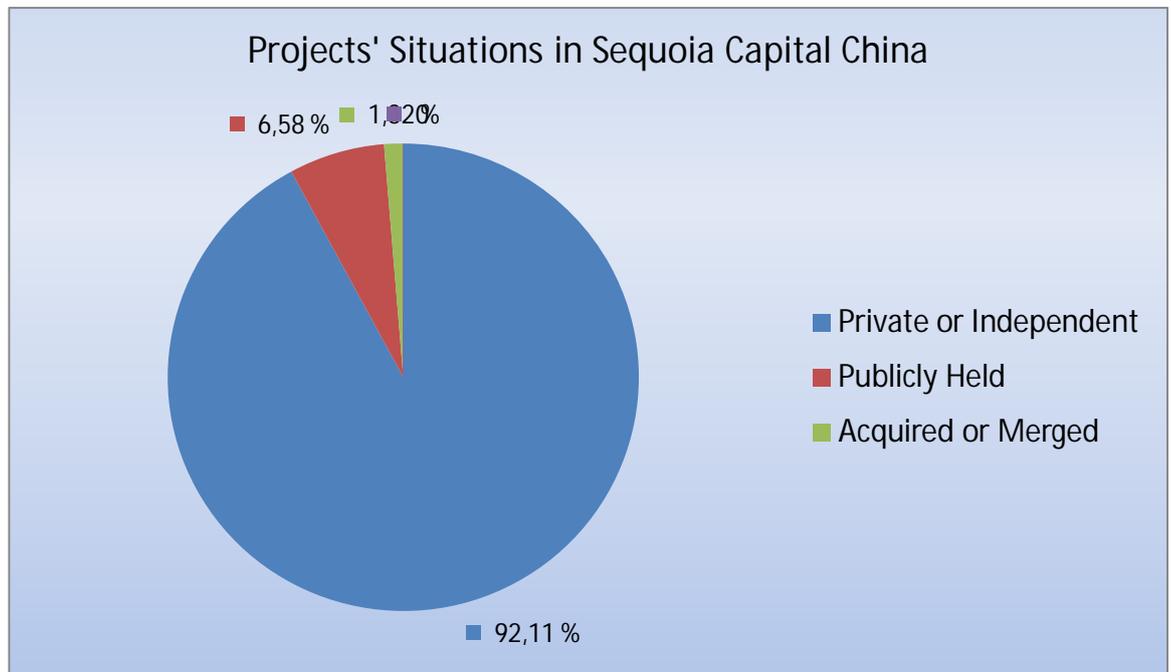
The figure shows that around 92.11% of projects in Sequoia China are private or independent. Normally, most of network projects belong to this part. Publicly held projects are about 6.58% in the company, which are developed by the country. The smallest part is acquired or merged, only 1.32%.

Figure 6 Stages of Development of Projects (2005-2010) (ChinaVenture, 2005)
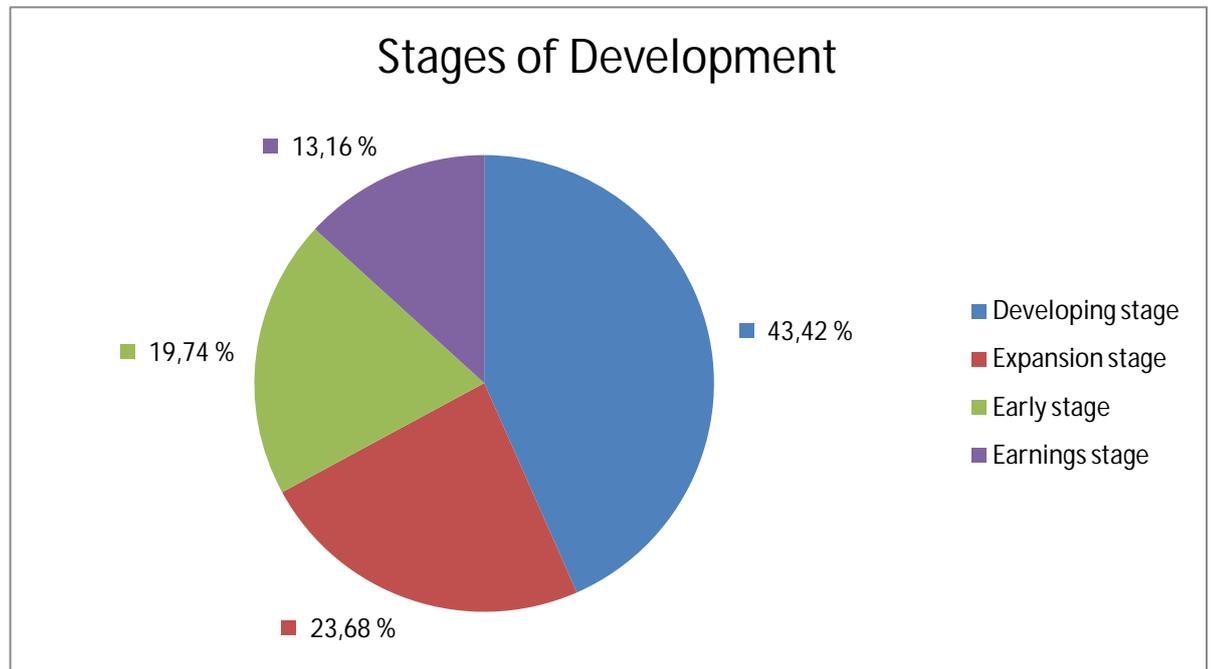
From this figure, it is clear to see that most of projects (43.42%) are in the developing stage and just 13.16% of projects are in the earnings stage. In Chapter 2, it said that venture capital is a long-term investment, so earnings stage accounts in a small part, but as said that the earning will be huge.

3. MANAGEMENT

In order to improve human capacity on survival and development, humans began to use effective organizational division of labors and cooperation. And also began to require highly efficient organizational activities. With the development of society, requirements of management are higher and higher and management theory is constantly evolving, from the classical perspective in the nineteenth and early twentieth centuries to now, the new management thinking for turbulent times (See in Fig.7). (Gu, 2008, 1)

Figure 7 Management Perspectives over Time (Daft 2006, 44)
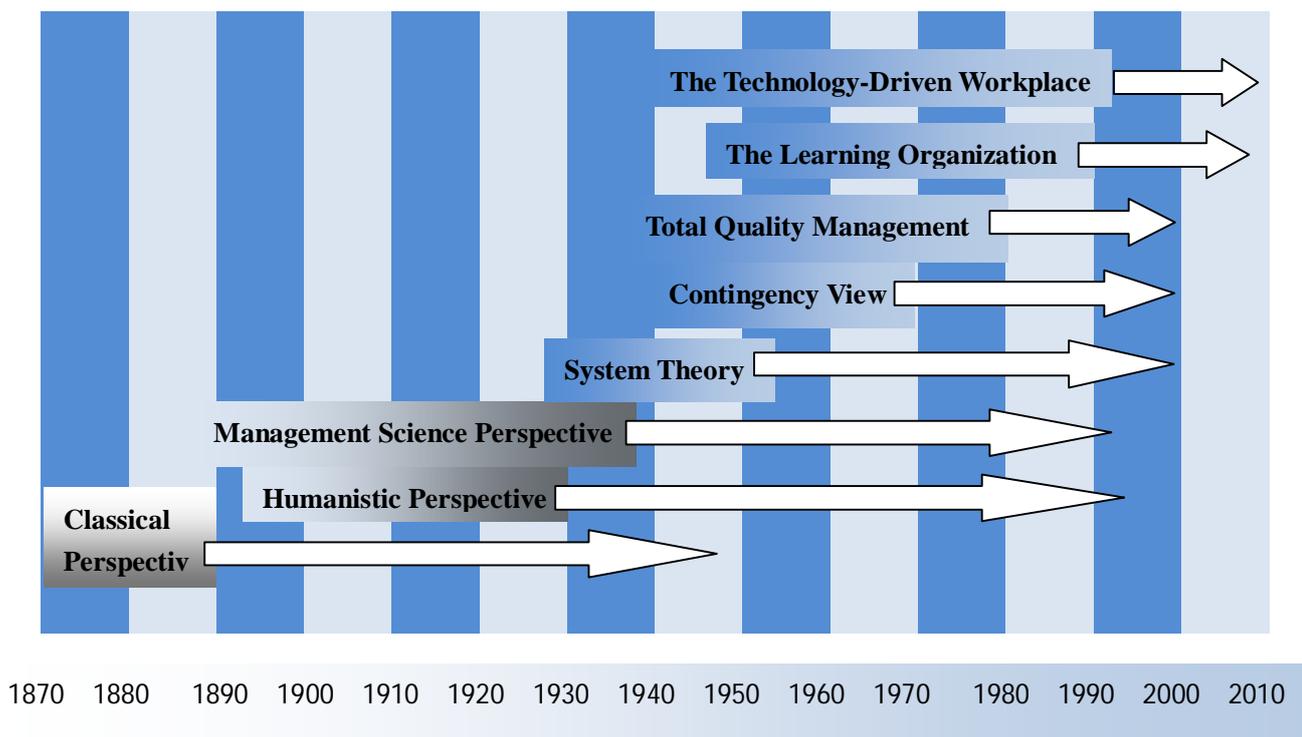
Management exists in all organizations and organizations of human life and work. Each organization has its unique mission and target and this is the reason to existence as an organization. Various activities would be done for completing the mission and target must be completed under management activities, including human resources, office equipments, capital and information resources and so on.

In society, management has close connection with science and technology. In general, if science and technology are more advanced, the requirement of management will be higher. (Gu, 2008, 2)

The management level of an organization is usually showed by the organization performance. It measures resources that managers use for meeting customer demands, and achieve organizational goals' efficiency and effectiveness (See in Fig. 8). A manager who owns both must choose the right target and knows how to use resources efficiently. (Daft 2006, 3)

Figure 8 Organizational Goals of Efficiency and Effectiveness (Gu, 2008, 3)

	LOW	HIGH
HIGH	Low efficiency/High effectiveness Managers choose the right target, but fail to use resources to achieve the target. Results: Products meet customers' needs, but too expensive.	High efficiency/High effectiveness Managers choose the right target and succeed to use resources to achieve the target. Results: Products meet customer' need, and both quality and price are right.
LOW	Low efficiency/Low effectiveness Managers choose the wrong target and fail to use resources to achieve the target. Results: Products do not meet customers' needs and with low quality.	High efficiency/Low effectiveness Managers choose the wrong target, but succeed to use resources to achieve the target. Results: Products do not meet customers' need, but with high quality.

Management as a work process, it includes a series of activities and they come into management functions. In the early twentieth century, the French industrialist, Henri Fayol suggested that management functions include planning, organizing, directing, coordination and control. After a long period of study and discussion, they considered to be planning, organizing, leading and control. (Gu, 2008, 5-6)

Before the start of any activities, there must be a plan to help members understand the goals, contents, environments and situations of activities and it will helpful on the decision making. Allocating members into right units and making individuals and units reach maximization of the power. A rational organization helps an organization to complete a project. (Gu, 2008, 6-7)

In the operation, the various types of information resources can be effectively communicated and operated. In exceptional circumstances, the organization can be changed. In an activity, there should be a leader to command, influence and motivate members. The last one is controlling, which guides the action of members' and pushes organization into the correct target (See in Fig. 9). (Daft, 2006, 9-10)

Figure 9 The Process of Management (Daft, 2006, 9)

Management Functions

Planning
Select goals and ways
to attain them

Organizing
Assign responsibility
for task
accomplishment

Controlling
Monitor activities and
make corrections

Leading
Use influence to
motivate employees
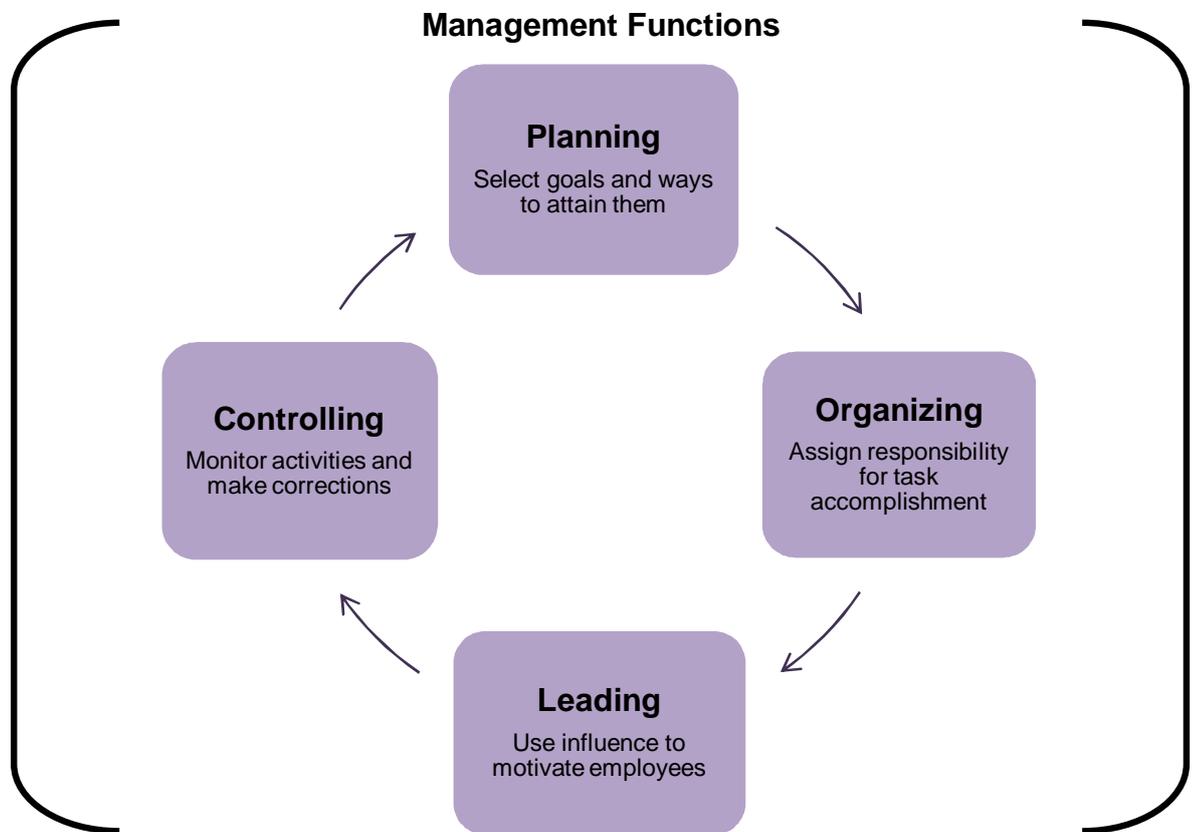
There are three management levels in an organization: top managers, middle managers and first-line managers (See in Fig.10). The content and nature of their work are completely different from each other. First-line managers need more work experience and skilled techniques. Middle managers are the masters of daily management, who implement the decisions from top managers and monitor and adjust work of first-line managers. Top managers specify the long-term objectives and strategic plans, which is the most abstract work (See in Fig.11). (Daft 2006, 10-11, Management Study Guide)

Figure 10 Management Levels in the Organizational Hierarchy (Daft 2006, 15)
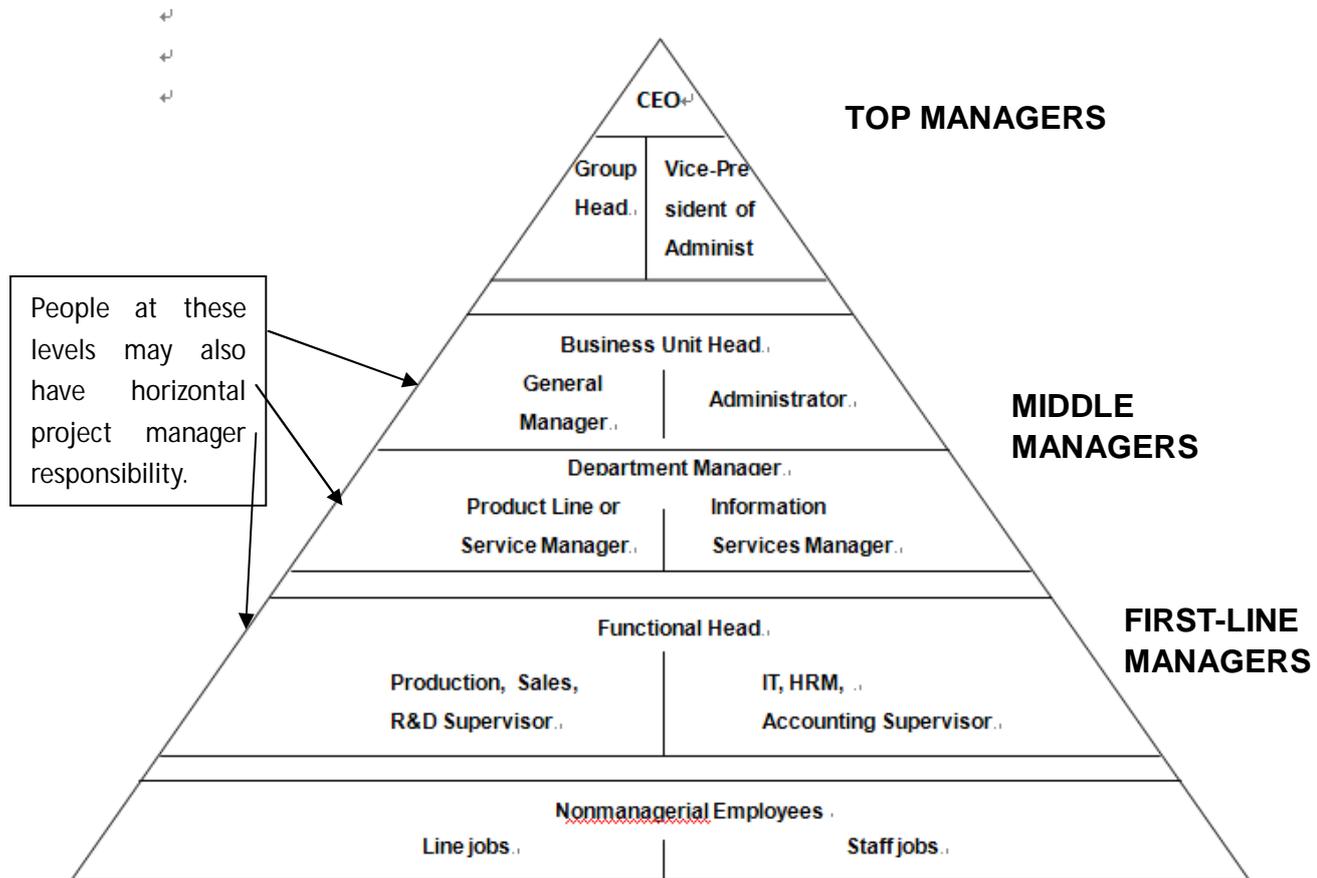
The figure shows the details in three manager levels. Different levels of managers have their own responsibilities and from top to first-line, jobs become more and more specific.

Figure 11 Time Spent on Management Functions at Different Management Levels. (Referenceforbusiness, 2010)

|	Planning	Organization	Leading	Controlling
TOP MANAGERS				
MIDDLE MANAGERS				
FIRST-LINE MANAGERS				
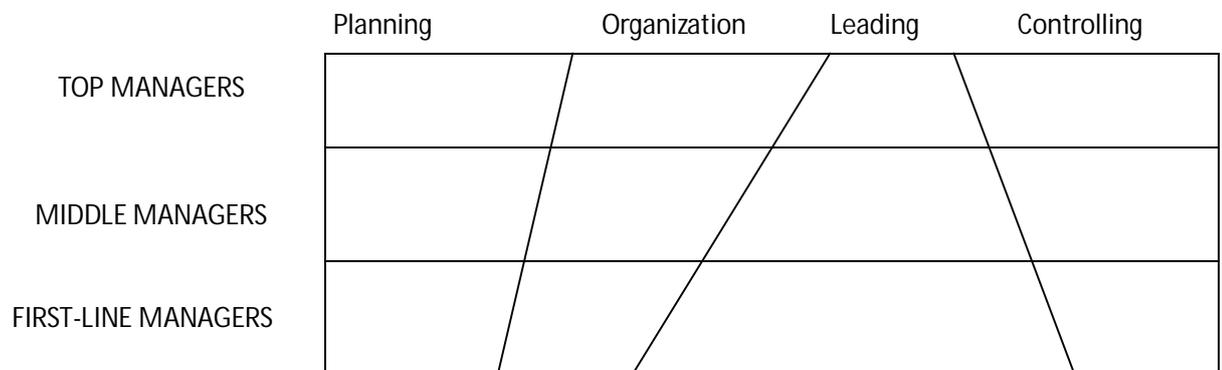
Management activities are complex and fragmented that managers have to face a wide range and large number of activities. Henry Mintzberg proposed that manager activities can be unified into 10 roles (See in Fig.12). Each role has its specific meaning to exist in the organization and managers change roles in different environments and situations. (Daft 2006, 19)

Figure 12 Ten Manager Roles (Sayeconomy, 2010)

Category	Role	Activity
Informational	Monitor	Seek and receive information, scan papers and reports, maintain interpersonal contacts
	Disseminator	Forward information to others, seed memos, make phone calls
	Spokesperson	Represent the unit to outsiders in speeches and reports
Interpersonal	Figurehead	Perform ceremonial and symbolic duties, receive visitors
	Leader	Direct and motivate subordinates, train, advise and influence
	Liaison	Maintain information links in and beyond the organization
Decisional	Entrepreneur	Initiate new projects, spot opportunities, indentify areas of business development
	Disturbance handler	Take corrective action during crises, resolve conflicts amongst staff, adapt to external changes
	Resource allocator	Decide who gets resources, schedule, budget, set priorities
	Negotiator	Represent department during negotiations with unions, suppliers, and generally defend interests

Organizational activities are carried out in the environment, which offers the essential conditions and also limits activities at the same time. Managers should learn to research the change of environment and analyze requirements of organization change by environment (See in Fig.13). Managers have to analyze the opportunities and risks of the organization in a complex environment and evaluate the environment uncertainty. (Daft 2006, 53-54)

Figure 13 Location of the organization's General Task, and Internal Environments (Daft 2006, 83)
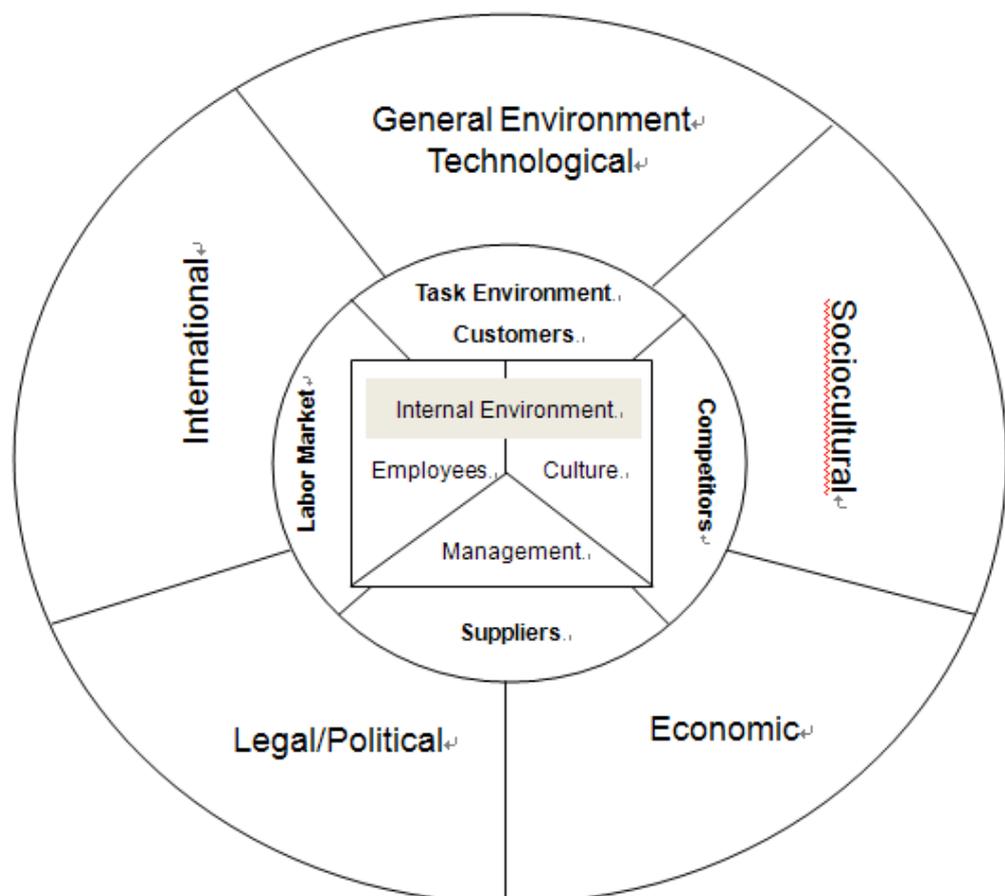
3.1 Teams and Groups

If an organization wants to be successful, an effective teamwork between staffs and managers is very important. (Gu, 2008, 284) A team means a unit of two or more members who interact and coordinate their work to accomplish a specific goal. (Daft, 2006, 768)

But it is necessary to know the differences between a team and a group. (See in Fig. 14) A team is a group of people but the two teams are not interchangeable. Anyone can make a group of people, but never establish a team. (Daft, 2006, 768)

Figure 14 Differences between Groups and Teams (Daft, 2006, 769)

GROUP	TEAM
· Has a designated strong leader	· Shares or rotates leadership roles
· Holds individuals accountable	· Hold team accountable to each other
· Sets identical purpose for group and organization	· Sets specific team vision or purpose
· Has individual work products	· Has collective work products
· Runs efficient meetings	· Runs meetings that encourage open-ended discussion and problem solving
· Measures effectiveness indirectly by influence on business	· Measures effectiveness directly by assessing collective work
· Discusses, decides, delegates work to individuals	· Discusses, decides, shares work

Demands from customers are complex and wide. An organization should use different levels' skills and knowledge from different departments. So when building a team, there must have all skills and knowledge which can respond to customers. (Gu,2008,285)

There are many types of teams exist in organizations. It is possible to be in two parts, formal teams and self-directed teams (Gu, 2008, 286)

In formal teams, there are three different types' teams of vertical, horizontal and the special-purpose. Between vertical and horizontal, they have the structural relationship with each other. (See in Fig. 15) (Daft, 2006,771-772)

Figure 15 Horizontal and Vertical Teams in an Organization (Gu, 2006, 772)

▪▪▪▪▪ Horizontal team

▬▬▬ Vertical engineering team
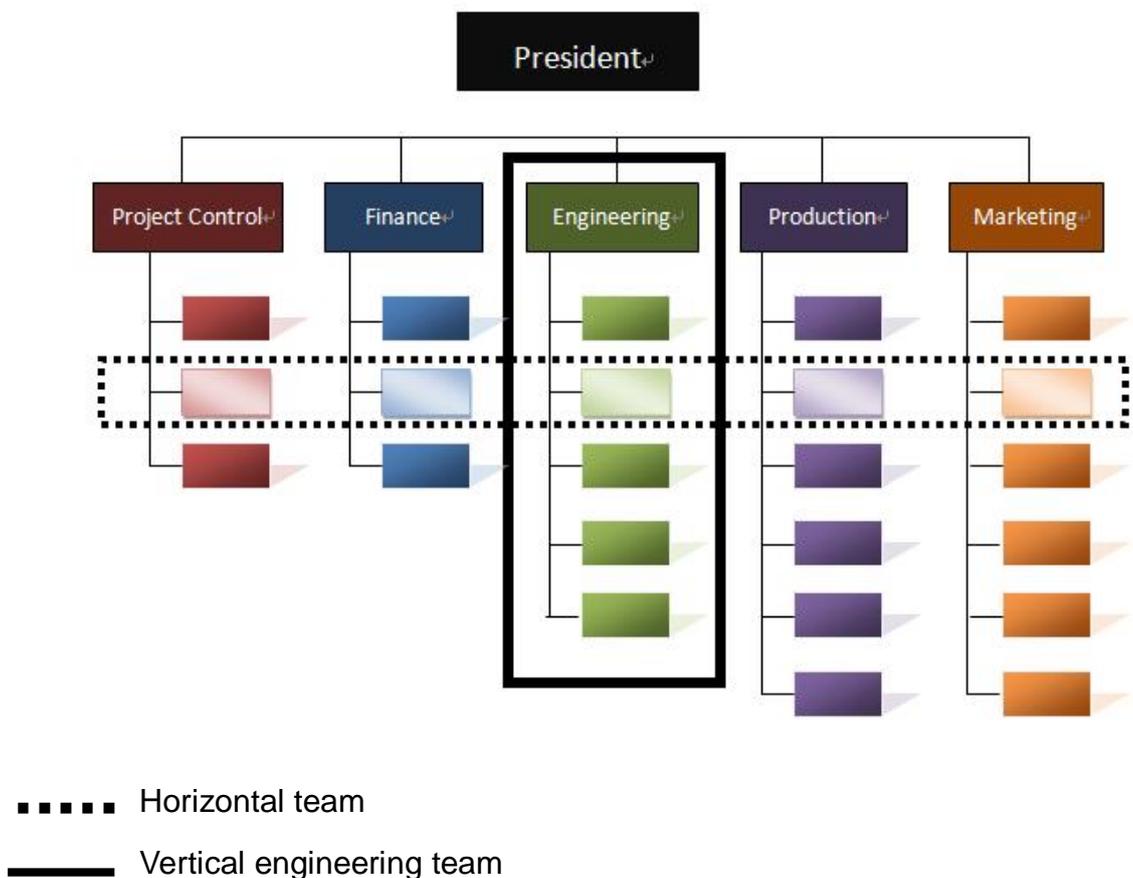
Special-purpose teams also can be called project teams. They focus on long-term projects and these projects will be special and new to members. Members in the team must have rich professional knowledge from different departments for complementation. (Daft, 2006, 772-773)

In self-directed teams, there have problem-solving teams, self-managed teams and virtual teams. These teams show that the basic goal of building teams is let different level employees to be a member in organization activities. (Daft, 2006, 772-773, pathways)

3.2 Business Cultures

According to the different histories and backgrounds, different countries have their own business cultures. Business cultures include thinking ways, negotiation, style of dress and business gifts and so on. It is impossible to judge what is right and what is wrong. (Itbusinessedge, 2010) Owing enough knowledge of different business cultures is one of the success key in international business. (Worldbusinessculutre 2010)

Until 2004, there have around 5651 different languages in the world, (hbwmw, 2004) which lead the language issues in business cultures. (BusinessLink, 2010) Each country has the special character, which has close relation with the language. And their thinking ways will also be different. (365u, 2006)

In the negotiation meeting, different countries have the unique styles. How to discuss the topic? Does small talk necessary or not? Who should be the first speaker and who should be the last one? In Asia, seats mean the positions of each people and during the meeting, no does not mean no and yes does not mean yes. And in the negotiation, when deadlock happen, how to break it? Is it possible to have a small joke? (365u, 2006)

Concept of time is another important part in business cultures. It is necessary to know about the real time of work days and hours and holiday days. Different places will have different habits, like in Japan and Hongkong, people work without time limited though they have the work time regulations. Otherwise, what is late is another part. In Europe and U.S, late is very rude activity. However, in some Middle East countries and Central and South America, time can be delayed around one hour or more. (yndaily, 2008)

With the time pass by, nowadays, there has the international business culture for people to study. According to the international business, it makes much easier for businessman to start business in a foreign country. But these are just the basic items, which are accepted together. Actually, these are not enough for people to do the successful international business in the world. (IBC, 2010)

4. LEADERSHIP

Leadership is one of the most important topics in business. It has three aspects stand out-people, influence and goals. Leadership can be defined as the ability to influence people toward the attainment of goals. (Daft, 2006, 660)

Leadership means to analyze problems from the overall situation and insist the goals and missions. Similarly, it also means to give more attention on relationship and try to find an equal and efficient communication way to solve problems. (Li, 2008)

Management and leadership are both important in organizations, but they have different qualities. (See in Fig. 16) Henry Kissenger said: "A manager takes care of where you are; a leader takes you to a new place." It is impossible for leadership to replace management; it should be in addition to management. (Daft, 2006, 661)

Figure 16 Manager and Leader Qualities (Daft, 2006, 661)

LEADER QUALITIES	MANAGER QUALITIES
SOUL	MIND
Visionary	Rational
Passionate	Consulting
Creative	Persistent
Flexible	Problem solving
Inspiring	Tough-minded
Innovative	Analytical
Courageous	Structured
Imaginative experimental	Deliberate
Initiates change	Authoritative
Personal power	Stabilizing
	Position power

Konosuke Matsushita said: "When I have 100 employees, I must stand in front of them to conduct. When there are 1000 employees, I must stand among them and get help from them. When employees reach ten thousand, I just need to stand behind them and grateful to them." A good leader should adjust the leadership style according to the stage, development and size of company, and management object. (Shi, 2004)

Whatever a person's leadership style, the main point of an efficient leadership is power. There are five sources of power: legitimate, reward, coercive, expert and referent. (Reportnews, 2006)

· Legitimate power – Manager gets power from an organization according to the management position.

· Reward power – According to the manager's responsibility range, he/she can give awards to members, from bonus to praise and so on.

· Coercive power – It means the ability of punishment, which can be verbal punishment or even dismissal.

· Referent power – It comes from members' respect and loyalty, which according to manager's background, experience and other personal characteristics. This is not a formal power, but it has more effects than other powers in some ways.

· Expert power – it establishes on manager's professional knowledge and skills. It makes members must respect and obey the decision.

(Reportnews, 2006)

Once, a little boy asked Walt Disney: "Do you draw the Mickey Mouse?" He said he did not. Then the boy asked: "Are you responsible to do all the jokes and ideas?" Walt still said he did not. The little boy asked that what he did. He told the boy that sometimes he thought he was a bee, flying from one side to another for encouraging others. (RS66, 2006)

However, leadership does not just mean motivation; it also includes solving problems, teaching and so on. There are eight items should be owned (RS66, 2006):

- Cultivating teamwork spirit – The teamwork spirit won't be existed by itself, which may need a leader to build it or even to create a spirit in a team.

- Building trust – Lao Tzu said: "If you don't trust people, people will not trust you." And George MacDonald also said: "To be trusted is a greater compliment than to be loved." Building trust is the key in a team of influencing people. (Kotelnikov, 2010)

- Clear goals and mission – They may make team members clearly to know what they need to do and they will think about how to do then.

- Helping members – A leader may not just do the lead things. Helping is another important job in the team. It may not just help, it can be an activity in team spirit.

- Creating a team culture – A team culture can be a basic team environment, which can be directly told or taught to members.

- Delegating authority to members, and retaining responsibility – Giving authority to members may let members feel approved, but a leader may need to supervise them and take the responsibility when problems happens.

- Creating a shared vision – A shared vision may make members to be one.

- Professional knowledge and skills – All above things are professional knowledge and skills a leader needs.

4.1 Teams and Team Roles

In management chapter, it talks about team and group. In a team, leadership is important and each member plays a team role. All members play roles for helping team reach goal and display the behaviors as following (See in Fig. 17) (Daft, 2006, 778-779):

- The task specialist role
  - · Initiate ideas
  - · Give opinions
  - · Seek information
  - · Summarize
  - · Energize

- The socio-emotional role
  - · Encourage
  - · Harmonize
  - · Reduce tension
  - · Follow
  - · Compromise

Figure 17 Team Member Roles (Daft, 2006, 779)

High

Member Task Behavior	**Task Specialist Role** Focuses on task accomplishment over human needs Important role, but if adopted by everyone, team's social needs will not be met	**Dual Role** Focuses on task and people May be a team leader Important role, but not essential if members adopt task specialist and socio-emotional roles
	Nonparticipator Role Contributes little to either task or people needs of team Not a important role – if adopted by too many members, team will disband	**Socio-emotional Role** Focuses on people needs of team over task Important role, but if adopted by everyone, team's tasks will not be accomplished

Low

Low   Member Social Behavior   High

In an efficient team, both the task specialist and socio-emotional roles should be taken. As a team leader, he or she should consider that in the team, some people just fit one type of role but others can be both. How to balance the team into the best situation is the most important thing that a leader needs to do. (Daft, 2006, 779)

As a team leader, he or she will influence the team processes. There are five stages of team development and in each stage, team leader and member have their special things need to be solved and done. (See in Fig. 18) (Daft, 2006, 778)

Figure 18 Stages of Team Development (12manage, 2010)

Stages of Team Development
(Bruce Tuckman)
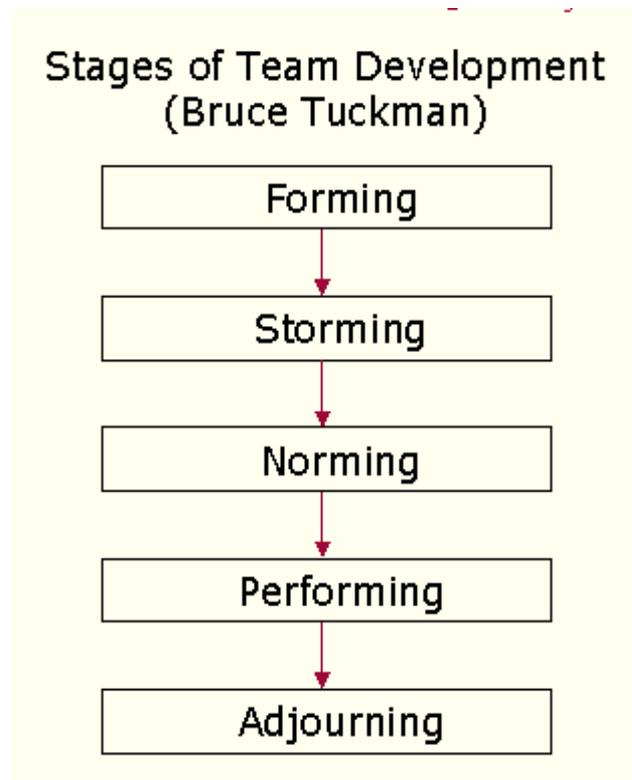
Forming – Project team initiation phase.

The team leader must bring the team together, ensuring that they trust each other and have the ability to develop a work relationship.

Storming – Various ideas compete, often fiercely, for consideration

The team leader guides the project team through this turbulent transition phase. Coaching style and tolerance of each team member and their differences needs to be emphasized.

Norming – Rules, values, behavior, methods, tools are being established.

The team leader allows the team to become much more autonomous. - Participative style.

Performing

The team leader lets the team make most of the necessary decision. – Delegating style.

Adjourning

Good point to introduce new projects in order to recommence the forming stage of team development. – Detaching style.

(12manage, 2010)

4.2 Communication

In the leadership, communication is an important part. It is not only passing information by written or oral reports. Actually, passing information as the main content in communication includes trans-information and share information. Another activity of communication is to improve interpersonal relationship. They have deep effect to each other. (GSCAS, 2010)

In the communication process, (See in Fig. 19) there must be at least one sender and one receiver. The sender should be the person who wants to share the information about personal or organization and change the information into languages or signs. This process is called encoding. (CUG Netcourses, 2010)

The receiver gets the information after the encoding by channel, such as telephone, mail, and face to face talking and so on. And then the receiver will translate the information, which is called decoding. This is the point of communication indeed. Noise in the process represents the hindrance in the communication. (CUG Netcourses, 2010)

The last part in communication is feedback loop. It helps the sender to know that whether the information is successfully sent to the receiver. And checking the content of information is current or not. (CUG Netcourses, 2010)

Figure 19 Communication Process (Learnmanagement2, 2010)
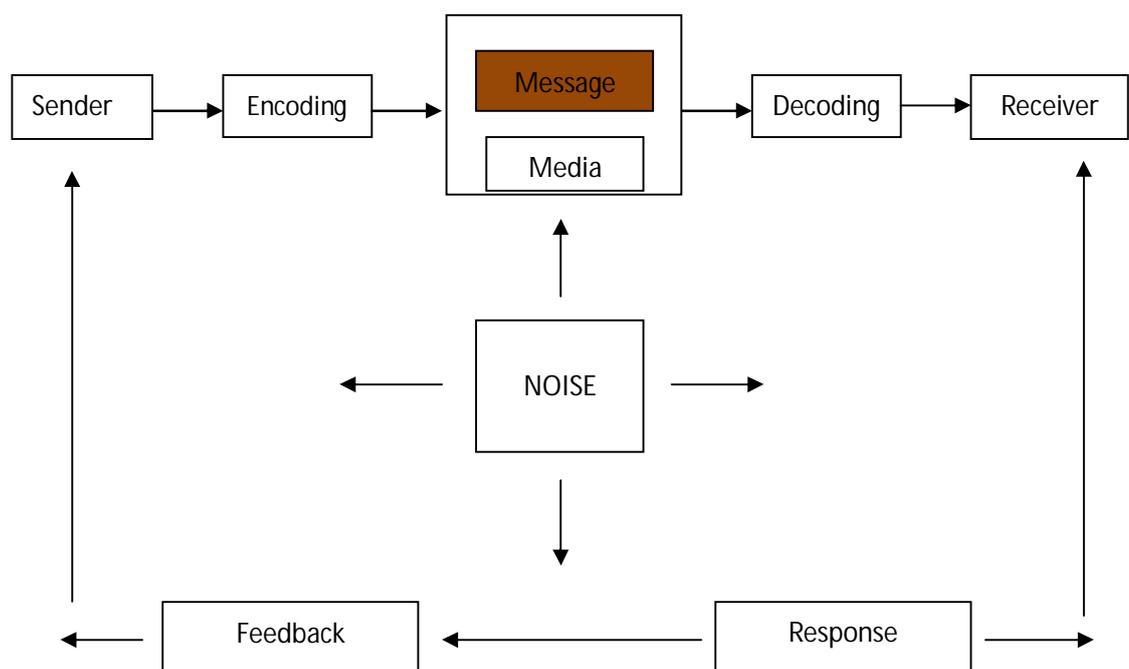
When encoding information into words by written or spoken, it is called verbal communication. It includes face to face talking, telephone or video frequency communication and written communication. (CUG Netcourses, 2010)

It is also possible to communicate by face expression, body language, or even clothes styles. It is nonverbal communication. When it is hard to explain information by words, nonverbal communication can show the thinking and emotion. (CUG Netcourses, 2010)

As a leader or a manager, listening becomes a most important skill now in communication. During the listening period, any basic situations can be gotten and it is the best way to understand member's thinking. Oppositely, member would like to understand the leader or the manager. (Sheng, 2007, 45)

Listening here does not stay on the meaning of the word. It also includes pay attention to the speaker and the content. Normally, more concentration, more effect. So when listen to the speaker, considering about when and why the speaker is exciting or sad, sitting or standing, and others. (Sheng, 2007, 46)

Similarly, listener also needs to pay attention to himself or herself. Concentration is one way of respect the speaker, but not enough. An efficient listening has ten keys to listener. (See in Fig. 20) (Daft, 2006, 741)

Figure 20 Ten Keys to Effective Listening (Cuesta College, 2003)

Keys	Poor Listener	Good Listener
1. Listen actively	Is passive, laid back	Asks questions, paraphrases what is said
2. Find areas of interest	Tunes out dry subjects	Looks for opportunities, new learning
3. Resist distractions	Is easily distracted	Fights or avoids distraction, tolerates bad habits, knows how to concentrate
4. Capitalize on the fact that thought is faster	Tends to daydream with slow speakers	Challenges, anticipates, mentally summarizes; weights the evidence; listens between the lines to tone of voice
5. Be responsive	Is minimally involved	Nods, shows interest, give and take, positive feedback
6. Judge content, not delivery	Tunes out if delivery is poor	Judges content; skips over delivery errors
7. Hold one's fire	Has preconceptions, starts to argue	Does not judge until comprehension is complete
8. Listen for ideas	Listens for facts	Listens to central themes
9. Work at listening	Shows no energy output; faked attention	Works hard, exhibits active body state, eye contact
10. Exercise one's mind	Resists difficult material in favor of light, recreational material	Uses heavier material as exercise for the mind

Communication is a complex process, any problems exist can make it distortion. In the organization, a reasonable structure makes communication easier to manage. But if the organization is too huge, then information will be difficult to pass from top to first-line, from time, content and effect. (Cntrades, 2006)

In such a huge organization, information will also be huge, which have the heavy pressure on filtering information. And when senders filter information, they must take their subjective factors in to. Especially the information may relate to the sender-selves. It will easy to lose information. (Cntrades, 2006)

In personal, knowledge and experience levels can lead information missing. In daily life, people like to do matters according to their experience. Different levels of experience make people have troubles in communication. (Cntrades, 2006)

To the same information, different people consider from different ways. It can be because of attitudes or profits. People pay more attention on the information relating on their profits instead of organization goals or management decisions. (Cntrades, 2006)

An efficient communication should have trust of both sides as premise. Manager levels should respect and encourage their members to say their thinking. A real communication is on mind level and emotion too. (Cntrades, 2006)

For overcoming the communication troubles, change personal skills and organization problems as following (Gu, 2008, 312-313):

Personal skills

Figure. 26 gives information about how to be a good listener to improve the listening quality. Different channels can make different communication effects. Different contents of topics need to choose the right channel and use the right way to communication. Channel will influence the understanding of information communication. In the communication, different sides have their own way's thinking and it will offer the different information explain. Talking with members, as more as possible, will get more things from different angles, which represent different view and information of profits.

Change the organization situation

The environment in the organization should be opening and free, and trust each other, and encouraging members to communication with others from hearts. Members would like to report or public information in the environment without repression and discrimination. And they do not need to worry about getting punishment if they share the bad news.

Multi-channels offer more possibilities of collecting and choosing information. But of course, managers should ask members to use the formal channels. Adjusting organization structure can help information flow fluently and solve the problems in the communication.

5. RESEARCH ON SEQUOIA CHINA

In this thesis, quantitative method, SWOT analysis and second data are used. Quantitative research is an interactive process, which uses scientific methods as research basis. It includes the generation of models, theories and hypotheses and so on. (Markland, Sweigart, 1990, 1-3)

SWOT analysis gives a clear overview about the company. S means strengths and W means weakness, both of them belong to the internal environment factors. The external environment includes O and T, they are opportunities and threats. (Marketingteacher, 2009) Secondary information is from internet researching and published sources. And it accounts around fifty percent in the thesis.

It is said: "A case study is a description of an actual administrative situation involving a decision to be made or a problem to be solved. It can a real situation that actually happened just as described, or portions have been disguised for reasons of privacy." (Plato. Acadiau, 2006)

With the case method, people can teach themselves, so it is a learning tool which can be discussed directly. (Plato. Acadiau, 2006) There are four steps before doing the case analysis. Firstly, investigate and analyze the firm's history and growth. It is the very first and basic information. Then identify firm's strengths and weaknesses. After knowing the first step's information, do the first analysis on the firm, like product development, marketing and so on. Thirdly, gather information on the external environment. It means to identify opportunities and threats of the firm. The last but not the least, analyze the findings. Compare information from step two and three can give help to create the evaluation of the case study. (Schweitzer, 2008)

5.1 Management and Leadership in Sequoia China (Case Study)

In the early stage, the projects voted by Sequoia China were basically the network industry, from UUSee, Odd Tiger to 51.com and so on. They all got great success and profitability that is entirely because managers of Sequoia China analyze and understanding the environment of China and Chinese market. (Sequoia China, 2010) At that time, China started large scale popularization of the Internet. People began to have interested in network industry and that lead the growth of demands in short supply conditions. (Luo, 2006) Sequoia China entered into market in the first time to manage and operate various types of network industry. (Sequoia China, 2010) When the industry began to stabilize, and with the time pass by, the market was close to saturation and competition became larger, Sequoia China started to pull out of some projects, which appeared the decline of return. (Feng, 2008)

If the external environment of the organization offers a living place and survive opportunities, the internal environment should be a self-quality and self-positioning. This internal environment can be a sort of culture, certainly, this culture should get coordination and unity with external environment. (Feng, 2008)

In Sequoia China, learning is one of contents in the corporate culture. As a Venture Capital company, they will contact with projects that are the most advanced sciences and technologies or relatively unfamiliar sciences. (Sequoia China, 2010) Before the investment, knowing and understanding the project content is the most important and basic thing. So continuous learning becomes to be a center core. It does not just direct at top managers, it is to everyone in the company. (Qi, 2006) There have no requirements on what should be learned, it all depends on interests. (Feng, 2008)

In 1980s, Americans learned from the management of Japanese companies and formed into the corporate culture system. It point out that management developed from the physical and the system level to the cultural level and it became the development direction. (Qi, 2006)

Physical, behavior, system and spirit are four levels in corporate culture. They together constitute the basic framework of culture, which contains the content of organizational values, organization spirits and ethical norms. From framework to content, each term is made in depth, from real matters to thinking of mind. It needs to be developed by the organization step by step. (Gu, 2008)

As a foreign company, first task is to know about the local culture and then to build the corporate culture. In China, there has a culture called relationship, and has different understanding ways from west countries (Sun, 2009) (See in Fig.21).

Figure 21 Different cultures in China (Sun, 2009)
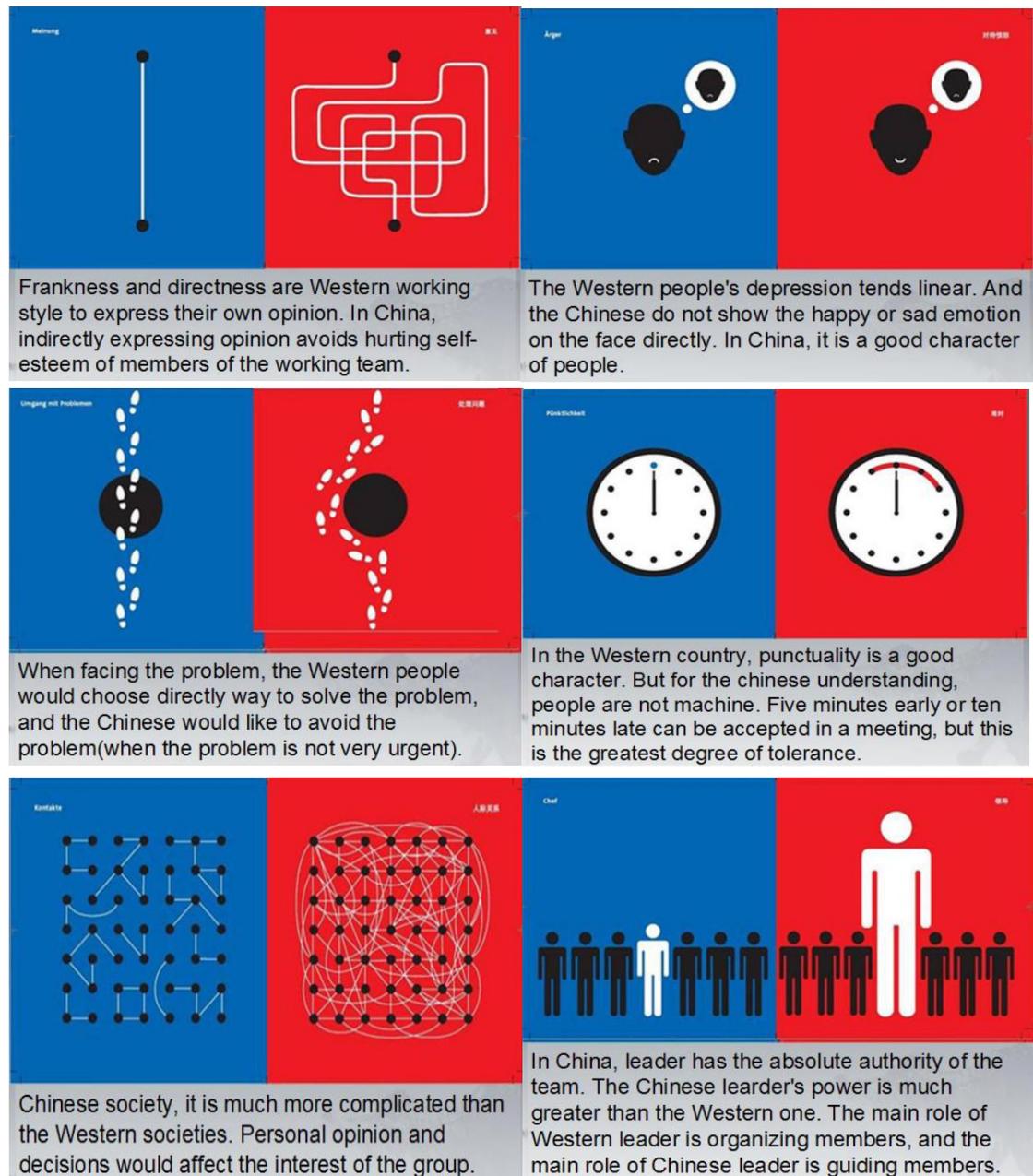
5.2 RESULTS

Sequoia China seems clearly know about the market situation and might do enough research on their project ranges. The company will not just copy the management and leadership ways from America to China, or from books to actions. Differences and cultures will be considered before actions.

Figure 22 The SWOT Analysis of Sequoia China

Strength	Weakness
Band image Original financial support Customer services Quality of employees	Lack of cohesion Personal decision
Opportunities	**Threats**
Good at taking advantage of opportunities Support from government Huge market capacity	Strong competitors Incomplete system of government

Different from Sequoia in U.S., Sequoia China invests both top technology projects and traditional industry projects, because China has different social position and special development way from U.S. In China, government hopes in each industry area, there can have leaders. (Sun, 2006)

When Sequoia China began to do investment in China, their main business was Venture Capital and they paid attention on IT area. After they had successful experience, they became to increase the EP investments and investment areas included medical treatment, new energy sources and so on. (Shen, 2010)

In Sequoia China, all employees are Chinese and the financial of the company is independent. (Chao, 2009) Using Chinese, they may operate the company as soon as possible. And they will not have language problems, same behaviors and same culture and so on. These factors will make management in Sequoia easier and more effective.

Nanpeng Shen and Fan Zhang were partners and top leaders in Sequoia China and they decide all investment projects in the company. They both have strange study background and outstanding sense and vigor. Nanpeng Shen asid curiosity was the most important thing as a Venture Capital investor. (Chi, 2009)

As an investor and a leader in the company, self-confidence is important. And when after making the decision, it is necessary to believe and insist it. It is impossible to remove all opposition, so a successful project will be the best response. (Fan, 2006)

6. CONCLUSION

In this study, management and leadership in a Venture Capital company in China are talked. Because of the limitation, seeking the best factors needed in management and leadership are very important.

Firstly, all methods are necessary, but they are basics. According to different environments, these methods should be changed. Each environment has its own culture and behavior, follow them and build new management and leadership characteristics. And in different companies, the different areas make things different again.

Secondly, in China, culture is one of the most important factors. Culture is not just in life, it will be into the work. Chinese people believe culture is a foundation and it is the best and only way to show the value and spirit directly. And they believe, whatever the culture is good or bad, it has the value of existence.

In business culture in China, relationship is a core word. Everything will relate with that word, from it and back to it. Making good relationship with all people who have relations on the business, it is the first step in the long business journey.

Leadership as a method in China has a short history, but it developed very fast. People talk a lot of about what the leadership is and how to be a good leader. Normally, self-confident, relationship, education background and experience are the basic factors to be a good leader in China.

Venture Capital as a new and special investment area has begun to be known in China. In the short time, it is impossible for government to establish a wonderful law system and rules for supervising and standardizing the Venture Capital market. There may have a long way to go to arrive at the level like U.S or European countries.

There has a very clear overview and structure about management and leadership in this thesis. And in the research part, basic information is given, like SWOT analysis and case study analysis. Using case study can give more direct information and analysis.

Before writing, backgrounds of Venture Capital, Sequoia, Sequoia China and Theories had been researched and the main chapters also had decided. But one step was missed during the thesis writing, it is the interview part. Because the Sequoia China met some internal problems, so the interview was canceled. Which makes the results of the thesis are totally according to the theories. Due to the situation, this thesis tends to be a theory thesis. There had no substitutes in the research plan, which led to jump it off directly. It is so important to have a more detailed and include emergency measures plan.

REFERENCE

Published Sources

Black, B. S., Gilson, R. J. 1998

    Venture Capital and the Structure of Capital Markets: Banks versus stock market. Journal of Financial Economic, 1998, (47):243-277

Chen, J. 2008

    Venture Capital & Private Equity in China

    Beijing Law Printing, Beijing

Chen, S. W. 2001

    Venture Capital. China Central Television. Lecture

    16 November 2001, 23 November 2001

Daft, R. L. 2006

    Management

    Qinghua University Printing, Beijing

Gu, F. 2008

    Management

    Gezhi Printing, Shanghai

Jiang, Y. F., Zhang. W, Shen, Y. 2001

    Venture Capital. Journal of Science China, 2001, (1):39-41

Liu, L. P., Xia, E. J., Yan, X. X. 2001

   Study on Venture Capital and SMEs Technology Innovation

   Beijing Institute of Technology Printing, Beijing

Markland, R. E. & Sweigart, J. R. 1990

   Quantitative Methods

   John Wiley & Snos Limited, Canada

Sheng, A. Z. 2007

   99 Necessary Leadership Skills

   Enterprise management publishing house, Beijing

Sun, M. 2009

   Quality Management of Outsourcing Welded Structure: Case China

   Lappeenranta University of Technology, Finland

Zen, G. B., Lan, J., Yunpeng. F. Y. 2002

   Development and Environment of Venture Capital. Journal of Financial

   Theory and Practice. 2002, 23(115): 45-49

Zhang,J. A. 2008

   Study on Venture Capital and SMEs Technology Innovation

   Science Printing, Beijing

Internet Sources

BusinessLink 2010 (on line)

Exporting – an overview

http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1073792500&type=RESOURCES

Retrieved 26 September 2010

Chao, M. J. 2009 (on line)

Partners in Sequoia, 3 February 2009

http://finance.jrj.com.cn/people/2009/02/0310523464733.shtml

Retrieved 16 June 2010

Chen, S. W. 2008 (on line)

Chen Siwei: Venture Capital in China, 12 May 2008

http://news.xinhuanet.com/theory/2008-05/12/content_8149448.htm

Retrieved 29 December 2009

Chi, Y. Z., 2009 (on line)

Shen Pengnan in Sequoia China, From Enterpriser to Investor

http://www.investide.cn/news/newsDetail.do?investNewsId=11918&page=3

Retrieved 16 June 2010

ChinaVenture. 2005 (on line)

Sequoia Capital China, 11 May 2005

http://i.data.chinaventure.com.cn/i/22/#

Retrieved 13 January 2010

CNELE. 2006 (on line)

> The History of Venture Capital, 26 May 2006

> http://edu.cnele.com/commerce/200605/2285.html

> Retrieved 29 December 2009

Cntrades. 2006 (on line)

> Barriers and management of efficient communication, 30 October 2006

> http://down.cntrades.com/info/4680.htm

> Retrieved 10 March 2010

CUG Netcourses (on line)

> Communication: Communicaiton Functions

> http://netcourse.cug.edu.cn:7310/cug/org_behavor/chapter10/chap10/p293/p293.htm

> Retrieved 12 March 2010

CUESTA COLLEGE 2003 (on line)

> 10 Keys to Effective Listening

> http://academic.cuesta.edu/acasupp/as/904.htm

> Retrieved 17 April 2010

Hbwmw, 2004 (on line)

> How many languages in the world?

> http://www.hbwmw.gov.cn/article.htm1?id=60015

> Retrieved 26 September 2010

IBC, 2010 (on oline)

    International Culture

    http://www.international-business-center.com/international_culture.html

    Retrieved 26 September 2010

iFeng. 2010 (on line)

    Details of Sequoia Capital China

    http://finance.ifeng.com/company/data/detail/1711.shtml

    Retrieved 5 January 2010

Itbusinessdge, 2010 (on line)

    Business Alignment and Management: Business Culture

    http://www.itbusinessedge.com/topics/show.aspx?t=473

    Retrieved 26 September 2010

Kotelnikov, V 2010 (on line)

    Building Trust: The Key to Influencing people

    http://www.1000ventures.com/business_guide/crosscuttings/relationships_trust.html

    Retrieved 14 May 2010

Lean Management2 (on line)

    Communication Theory

    http://www.learnmanagement2.com/communication1.htm

    Retrieved 15 March 2010

Li, K. F. 2008 (on line)

    What is Leadership?

    http://finance.jrj.com.cn/biz/2008/10/1109292259288.shtml

    Retrieved 19 March 2010

Luo, H. 2006 (on line)

    The Development of Network in China

    http://media.people.com.cn/GB/22114/76466/76467/5220338.html

    Retrieved 26 March 2010

Management Study Guide (on line)

    Levels of Management

    http://www.managementstudyguide.com/management_levels.htm

    Retrieved 15 April 2010

Pathways. Cu. Edu (on line)

    Teams and Work Groups: Types of Teams and Their Functions

    http://www.pathways.cu.edu.eg/subpages/downloads/Teams_Chapter_

    2.pdf

    Retrieved 15 April 2010

Plato. Acadiau (on line)

    An Approach to Case Analysis

    http://plato.acadiau.ca/courses/Busi/IntroBus/CASEMETHOD.html

    Retrieved 23 September 2010

Qi, L. P. 2006 (on line)

 Cross-Cultural Management, 1 June 2006

 http://www.mie168.com/manage/2006-06/289517.htm

 Retrieved 20 March 2010

Reference for Business (on line)

 Management Levels: Management Levels and the Four Managerial Functions

 http://www.referenceforbusiness.com/management/Log-Mar/Management-Levels.html

 Retrieved 20 January 2010

Reportnews 2006 (on line)

 Identifying Five Sources of Power

 http://www.reporternews.com/news/2006/jun/23/identifying-five-sources-of-power/

 Retrieved 15 April 2010

RS66 2006 (on line)

 How to be an A+ Leader in the Team? 3 December 2006

 http://www.rs66.com/a/11/41/ruhezuogeA_detuanduilingdaozhe_31603.html

 Retrieved 15 March 2010

Sayeconomy. 2009 (on line)

Ten Management Roles by Henry Mintzberg, 15 February 2009

http://www.sayeconomy.com/ten-management-roles-by-henry-mintzberg

Retrieved 20 January 2010

Schweiter, K 2008 (on line)

How to Write a Case Study Analysis

http://www.kmcenter.org/html/s3/200810/07-5493.html

Retrieved 23 September 2010

Sequoia China. 2010 (on line)

Introduction

http://www.sequoiacap.cn/

Retrieved 29 December 2009

Shen, N. P. 2010 (on line)

Real Outstanding Firm Needs Difference-Making Technology,

28 June 2010

http://www.investide.cn/news/newsDetail.do?investNewsId=16874

Retrieved 15 July 2010

Shi, Y. X. 2004 (on line)

What is Real Leadership? 12 April 2004

http://www.emkt.com.cn/article/151/15140.html

Retrieved 12 March 2010

Sun, R. H. 2006 (on line)

    Sequoia China, 10 April 2006

    http://tech.sina.com.cn/i/2006-04-10/1356897258.shtml

    Retrieved 15 June 2010

SXZYD. 2008 (on line)

    What is direct investment? What is indirect investment, 23 October 2008

    http://www.sxzyd.net/Item/46536.aspx

    Retrieved 5 January 2010

Worldbusinessculture, 2010 (on line)

    World Business Culture

    http://www.worldbusinessculture.com/

    Retrieved 26 September 2010

Xu, S. Y. 2008(on line)

    Trust and Communication – Leadership

    http://news.gscas.ac.cn/gscascn/Presentation/DetailContent.aspx?ContentID=6035&ChannelID=93&TopicID=319

    Retrieved 10 March 2010

Yndaily, 2008 (on line)

    Concept of Time in Different Countries

    http://www.yndaily.com/html/20080408/news_99_32575.html

    Retrieved 26 September 2010

12manage 2010 (on line)

Stages of Team Develop

http://www.12manage.com/methods_tuckman_stages_team_developm

ent.html

Retrieved 15 March 2010

365u 2006 (online)

Different Business Cultures

http://www.365u.com.cn/WenZhang/Detail/Article_110522.html

Retrieved 26 September 2010