

Structure of VC-E Trust Based on the “GuanXi” Culture in China

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Abstract

Taking risk investment is of crucial importance to startups as they are lack of funds, small scale, faced with management difficulties. Therefore, in the field of entrepreneurship, the researches about relationship between entrepreneurs and venture capitalists have always been the hot topic in academy and the business, especially the trust relationship between them. Enhancing trust of venture capital and entrepreneurs is useful to cooperation of both sides. In this paper, based on background of the relationship culture in China, the paper puts forward different performance of the development of VC - E trust in different phases. According to the literature at home and abroad, combining the background of our strong relationship culture, the structure of VC - E trust is divided into three aspects: computational trust, knowledgeable trust and relational trust. Relationship trust is particularly important to the performance under the background of “GuanXi” culture in China. We interview 698 startups and distribute questionnaires survey for the empirical analysis, the results show that under the background of relationship culture in China, in this paper, the structure partition of VC - E’ trust is reasonable and effective. In the initial contact with computational trust is given priority to, VC - E adhere to the strict contract. As the two sides further understand, even if no interests, they also more willing to consider each other's interests. In the phase of relational trust, through long-term communication and information sharing, the value of the world view between them is similar or consistent, both parties can realize share of resources. The academic contribution of this paper is to broaden the study of trust between VC - E, also helpful to identify trust of VC - E in different stages, in order to pay more attention to the cultivation of the trust relationship.

Introduction

Innovation driving plays an important role in China's economic growth^[1], the release of a large number of entrepreneurial opportunities in the process of the economic system transformation are the important power of China's rapid economic development. The new companies face a high degree uncertainty of technology and market as newness leading to the growth of the disadvantage or Weakness^[2]. Creative reorganization of resources and unique entrepreneurial behavior of pursuing opportunities actively for the market is the key to make weak startups able to survive in the fierce competition of market. The trust is neither an act(such as cooperation), nor an option (such as taking risk), but the potential psychological

state caused by these actions or selections^[3], this kind of psychological state directly determine the contribution of entrepreneurs and input of venture capitalists . The trust of the entrepreneurs and venture capitalists is the key resource for the success of venture enterprise. Trust refers to that the more intense of trust expectations under the uncertain environment , the more improve the level of trust between the two sides, leading to more effective cooperation, ultimately reflected in the high growth characteristics of venture enterprise in dynamic environment, concluding fast growth, enterprise scale, the enhancement innovational ability, the potential growth of enterprise .Therefore, in this sense, the success of the venture enterprises depend on the trust' relationship of entrepreneurs and venture capitalists. Trust of VC - E present different change in different stages over time. So it is necessary to carry out the structure of trust. The relationship is closely combined with trust, under background of special 'GuanXi' culture in China. Fei Xiaotong (1947) points out the distinction between 'circle' and 'out circle' , putting forward Chinese relationship is in the pattern of different sequence focus on social structure and relationship in the traditional society in China. So it is essential to combine the relationship cultural background in the division of trust' dimensions.

Literature Review

Entrepreneurship

Weber think entrepreneurship refers to seize and organize a part of an economy, and bear the economic risks to meet people's needs by trading, the purpose is to create profits. Arthur raises that entrepreneurship is purposeful behavior of enterprises to initiate, maintain and develop profit-oriented enterprises .Gartner (1990) argues that connotation of entrepreneur embodies in the personal characteristics and behavior of entrepreneurs . The connotation of this entrepreneurial activity actually include a variety of specific management behavior of entrepreneurship, including the create of a new business and a new organization, to achieve a new integration of various resources, development of opportunities[4].

Researches of Entrepreneurship mainly experience three stages[5]. The early -researches of entrepreneurship concentrate on characteristics, adopting the method of feature oriented , a lot of researches explore the influence of characteristics of the entrepreneur on entrepreneurial success or the performance of business enterprises from the perspective of sociology and psychology to and also focus on the entrepreneurship, entrepreneurial process affected by characteristics of entrepreneurs or psychological characteristics ,scholars focus on the easily observed and measured behavior of entrepreneurship rather than the characteristics which are not easily observed -researches of entrepreneurship under the contingency perspective.

Relationship of venture investors and entrepreneurs has undergo from single principal-agent relationship to emphasize multidisciplinary, multiple theory; from simple in the angle of the investor to both of investors and entrepreneurs, principal-agent theory only emphasizes the opportunism behavior of the entrepreneur, rather than behavior of investor that may occur. Study on the relationship based on the prisoner's dilemma theory: Cable and Shane, according to the prisoner's dilemma model of the two relations, concluded that time pressure, equal rights, demographic characteristics have influence on the relationship between them.; The research based on the theory of the fair: Korsgaard puts forward: the core of the theory is

no matter what kind of result the decision may lead to, as long as the individual thinks the process of making decision fairly, they will be more willing to take action. Clercq and Sapienza claim that expectations of justice and confidence in the process of making decisions are conducive to produce the trust relationship between trading bodies. Sapienza and Korsgaard conclude that when venture investors perceive the procedure entrepreneurs employing to trade is fair and considerate for the interests of the investors, this will lead to building trust relationship between venture capitalists and entrepreneurs. based on social justice theory of research ;Study on the relationship based on the theory of inter-organizational learning: Clercq and Sapienza think the relationship between them is a goal of mutual learning , and to achieve this goal and set up social connections. Based on the theory of the network, the theory claims that both of them in the same network, the management of two sides in network is closely related to the core of their relationship. elated research, of intense relationship

Relationship

Granovetter (1973), puts forward the concept of strong relationship for the first time, and the relationship is divided into two types: strong relationship and weak relationship[6]. He raises four indicators to measure the strength of the relationship: one is the time and frequency of interaction, spending long time and the more frequency of interaction are more strong relationship, instead of weak relations; Second, emotional intensity, strong emotion, a deep strong relationship, whereas for weak relations; Three, familiarity or the high degree of mutual trust relate to strong relationship, instead of weak relations; Four , the high degree of mutual exchange, more widely mutual exchange are relate to strong relationship, instead of weak ties. Gulati(1995) argues that strong ties has more advantage, because increasing in number of times of both sides produces intimacy, which is helpful to lead to mutual trust, further to produce more powerful support[7]. Marsden (1998) according to the data of Detroit survey to analysis also found strong relationship plays an important part in the social mobility[8]. Lundvall(1992) Saxenian(1994) suggest complex knowledge flowing or transferring often reflects the proximity and the viscous effect, especially in people who have to face to face, frequent communication to share knowledge, the effect is obvious[9]. In these areas, strong relationship is benefit to the improvement of information and efficiency knowledge transferring.

Bian yanjie (1997) puts forward strong relations play a more pivotal role than weak relationship. under the planned economical system in China. Strong relationship rather than the weak relationship can serve as bridge of network if there is no link between personal[10].

Fei xiaotong focus on social structure and relationship of traditional Chinese society , coming up with the famous concept of " different sequence of pattern " in 1947[11]. Fei xiaotong (1947) points out the distinction between "belonging" and "outsiders", which Chinese relationship is in the pattern of different sequence due to the different relations such as relatives, colleagues, workers, producing different relationship between the superior and the subordinate. Social relations from one by one with the increasing of personal contact, the social network is based on kinship and formed by personal contact. The concept of "pattern of different sequence" revealing the relationships of Chinese society is the concept of individual-centered , indicating the relationship of affinity-disaffinity between themselves and others. gradually extending outward. Fei xiaotong claims that pattern of different sequence is

based on kinship and geographical relation when it comes to the core of the Chinese traditional social relationship.

Trust

The generation of trust is influenced by many factors, so the scholars of different subjects have their own claims. Trust has both theoretical significant and great realistic meaning. Social scholars' definition: (Georg Simmel, 1990) points that trust is the most important one of the comprehensive strength of society. (Francis Fukuyama, 1995) trust grows out of expectation of behavior -norm, honesty, cooperation of the community. Psychologists believe that trust is the psychological preparation of bilateral cooperation, which under the condition of uncertainty of cooperation or competition, expect the other party to make reasonable action. Understanding trust as individuals in a particular social environment produced by the psychological reaction or form psychological traits. Hosmer (1995) in the review of trust distinguishes the four main ideas[12]: (1) Personal expectation that under the situation of individual fragile trust is seen as the result of the uncertain time of irrational expectation; (2) The interpersonal relation, namely the increase of willingness of trust is a party to the other uncontrolled behavior of the fragility; (3) Economic transaction means that trust is essential for reducing transaction costs. Trust will act for another person to make a fair and consistent with any dominant or recessive investors and negotiations before these investors are honest, even if there is luck to negotiate again (4) the social structure. trust is based on social relationships in the system of "collective property".

Research hypothesis

Structure division of Trust: Lewicki and Bunker propose three stages according to the development of the model of trust: computational trust, knowledgeable trust, identical trust. Shapiro, the trust is divided into bullying trust, knowledgeable trust, identificational trust. Sako studies relationship of trust in the process of procurement activities and puts forward the following three types of trust: (1) compact - trust (2) competency-based trust (3) goodwill trust. Williamson claims trust divided into computational trust into, individual trust and systematic trust. Lewis, J.D. and Weigert, A. point trust as a product of interpersonal relationships, is the combination of two dimensions- rationality and emotion[13]. There have different types of trust by combining cognitive trust and affective trust which are the most important. Rousseau et al. (1998), the trust is divided into three stages: the initial stage of trust, namely, there isn't credible, meaningful information, between the two sides, trusting an unfamiliar object; Trust in solid phase, with the accumulation of information and the increases of contact experience of each other, partners gradually develop the solid trust; Trust descending phase - trust decreases at this time. Li wei min, Liang Yucheng put forward trust consisted of common trust and special trust under the background of Chinese culture[14]. Universal trust derives from the identity between a group of people, because the system of trust under the specification of the object is a group of people, or a group of people agreed with each other, or to show credible right, rather than a particular object, so called universal trust Special trust inevitably exists in the two relations, is the result of interaction. Generalized special trust can be right relationship, also can be based on exchange of relationship[14].

Insert Table 1 Division on the structure of trust

scholars	Division on the structure of trust
Zucker (1986)	Characteristics trust, process of trust, systematic trust
Sako (1992)	Compacted trust, competency-based trust and goodwill trust
Lewicki and Bunker (1995)	Computational trust, knowledgeable trust, identical trust

Famous scholars Lewicki&Bunker has significant influence in the field of the trust [15]. According to the stage of development of trust, the trust is divided into computational trust, knowledgeable trust and identical trust. As this kind of dividing method is generally accepted by the related experts, and almost become the foundation of other methods, we refer to the dividing method of Lewicki&Bunker, combined with China's cultural context and entrepreneurship practice, try to divide the trust structure of venture investors to the entrepreneurs.

Many overseas scholars believe that the so-called Chinese relationship is closer to the meaning of personal relationships, rather than relationships. ZhaiXueWei think relationship has three meanings: one is the relationship; The second is relationship that can be built; The third a relationship network set up by the former. Limlin Ganwhiteley, Yoshihara adopt Zucker's point of view, analysis social mechanism, of trust in China and point the trust is generated mainly by reputation and relationships in China.

Computational trust, knowledgeable trust, identical trust this dividing method is generally accepted by the experts in the domain of trust through literature, combined with the relationship between the Chinese cultural background, the structure of VC - E trust is divided into Computational trust, knowledgeable trust, relational trust.

Research Method

We determine the measuring item of each trust dimension through analysis of literature and refer connotation of trust in literature and combine the risk situation of trust in the enterprise. We adopt two-way translation method, convert foreign scale about trust to adapt the Chinese context, try our best to make it be complete and accurate. And then, the measured items are modified and adjusted on the basis of related research at home and abroad, according to the needs and purposes of the research, combined with opinion and the suggestion of related entrepreneurship expert ,eventually 12 items are formed. The researchers chose 55 entrepreneurs and venture capitalists conducted in-depth interviews, mainly in incubators, heilongjiang province high and new technology industry area .The interview time up to two hours, the shortest also has 50 minutes, the content in the interview outline can be finished. We

analysis the results of interviews, in line with hypothesises and the final questionnaire.be completed.

Table 2 scale of trust structure

variable	item	origin
Computational trust	1 Entrepreneurs and venture capitalists choose cooperation in their own interests	Lewicki&Bunker, Shapiro ZhengYefu,PengSiqing
	2 Entrepreneurs and venture capitalists believe they will perform their respective obligations in accordance with the contract	
	3 Entrepreneurs and venture capitalists cooperate on the basis of the other good reputation	
	4 Venture investors believe that the investment will pay off	
knowledgeable trust	1 Entrepreneurs and venture capitalists believe they have the ability to work well	Yoo,Sclieer; YangZhongfang; PengSiqing
	2 Entrepreneurs and venture capitalists are honest to each other	
	3 Venture capitalists needn't to	

	<p>supervise daily management activities of entrepreneurs</p> <p>4 Entrepreneurs and venture capitalists help each other</p>	
relational trust	<p>1 entrepreneurs and venture capitalists have stable cooperation</p> <p>2 Entrepreneurs and venture capitalists share each other's ideas, views and selfless emotion</p> <p>3 entrepreneurs and venture capitalists take risk commonly</p> <p>4 Entrepreneurs and venture capitalists often show concern, tolerance, help, and sense of responsibility for each other</p>	BladeYoo.Cummings

According to the setting up time of new company, cooperative time and other related standards, new risk investment institutions generally been 1-5 years. We release questionnaires randomly In the new venture investment company in incubators. According to the above sampling criteria and a list of the high and new technology enterprise provided by heilongjiang association of industry and venture capital firms. A total of 432 questionnaires are distributed, 396 valid questionnaires (VC 183 questionnaires, 213 questionnaires E), the recovery rate is 91.67%.

In the data analysis phase, this paper collected sample data and use correlation analysis, and hypothesis testing. The results showed that the data satisfying the conditions of tSEM analysis. In this paper, we use (LISRL) for confirmatory factor analysis and Cronbach's to confirm reliability .

In this paper, we use GFI, AGFI, RMSEA, TLI, index of CFI and GFI, AGFI CFI exceeds 0.90, and meets the requirements of more than 0.9; TLI, RMSEA in 0.05-0.05, the model fitting effect is well. As the chart shows, the model has good fitting results. Standardized

coefficient factor load within the acceptable range. Significant ($P = 0.001$). Therefore, all observed variables can be effectively measured its dimensions. The effectiveness of the trust structure based on the "relationship" culture under the background of VC - E is verified.

Table 3 validity of trust structure

Standardized load factor	Fitting Index								
	χ^2	df	p	χ^2/df	GFI	AGFI	RMSEA	TLI	CFI
0.79	102.93	55	0.001	1.653	0.921	0.957	0.077	0.981	0.965

Table 4 diacritical validity of trust structure

	1	2	3
CT	0.793		
KT	0.564	0.791	
RT	0.579	0.632	0.842

The numbers on the diagonal express the square root of AVE about the potential variables, the value of CT expresses computational trust; KT expresses knowledgeable trust; RT expresses relational trust.

The arithmetic square root of AVE greater than absolute value of correlation coefficient between the latent variables. This suggests that the potential variables extracted from its index variance ratio bigger than from other latent variable sampling variance , it manifests that there has better diacritical validity between the variables.

Table 5 Cronbach's of VC - E trust structure

	calculated Trust	Knowledge-based Trust	"Relationship" Trust	Total trust table
Cronbach's α coefficient	0.913	0.904	0.910	0.942
Standardized Cronbach's α coefficient	0.916	0.908	0.910	0.945

Through the reliability and validity analysis, computational trust, knowledgeable trust, relational trust Cronbach 's> 0.9, which indicate that the division of trust structure with good reliability. Under the background of "relationship" in China, structure of VC - E trust is divided

into: computational trust, knowledgeable trust and relational trust, multidimensional and the division reflects the the relationship between of v c and E along with cultural feature.

Discussion on the result

Trust relationships between VC - E has been hot research in the field of entrepreneurship, based on the relationship under cultural background in China, the division of the trust structure according to different stages . Investment institutions keep the trust of the rationality before the makng decision of investment, namely the computational trust. Entrepreneurs will not damage the interests of their own because of the existence of the contract. As both sides further deepen understanding, trust belongs to knowledgeable trust in this stage, Both sides can accurately predict the behavior of each other , even if there is no interests, also more willing to consider interests of each other. In the phase of relational trust, through long-term communication and information sharing, the value of the world view between them is similar or consistent, both parties can realize share of resources. Results show that under thebackground of culture in China ,relational trust performs more active . VC - E should pay attention to the cultivation of relational trust, which is helpful to the long-term cooperation between the parties. In this paper, on the basis of literature review to summarize the dividing method of universal trust , due to China's cultural background, structure of trust shows different characteristics, so trust structure of VC - E is ultimately divided into computational trust, knowledgeable trust and relational trust . The theoretical significance of this paper is to widen the study of VC E trust, at the same time to cultivate long-term cooperation for VC - E. we divide the structure of trust e in different stages according to main performanc .but not to point whether there is interaction between them .

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