

RESEARCH ON THE RELATIONSHIP BETWEEN VENTURE CAPITALISTS' TRUST IN ENTREPRENEUR AND THEIR INVESTMENT BEHAVIOURS

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ABSTRACT

Venture capitalists' trust in entrepreneurs and their investment behaviours does not interact directly. The relationship is affected by multiple factors. The relationship model was established based on documentary evidence, speculative analysis and depth interviews methods. Through empirical study, obtain the affecting relations and the degree of influence among factors, as well as between factors and indicators. Then based on the result, analyse the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours.

Firstly, building a model for the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours. Based on documentary research and interviews, analyse the relationship between the factors: the influencing factors at the initial stage of trust, investor risk appetite, entrepreneurial behaviours, capitalists' decision-making behaviours, capitalists' post-investment behaviours. According to analysis, build a theory model and determine observed variables. Secondly, testing the theory model based on SEM and analysing the results. With the questionnaire survey method, collect data by issuing 323 questionnaire surveys of 104 Chinese venture capital firms which are divided into different regions by Global Entrepreneurship Monitor (GEM).

We find that entrepreneurial behaviours pose greater influence to the trust compared with the influencing factors at the initial stage of trust. Entrepreneurial behaviours also have significant impact on capitalists' decision-making behaviours. Entrepreneurs' behavior is a key factor for the relationship between venture capitalists' trust in entrepreneur and their investment behaviours. Trust have significant impact on capitalists' decision-making behaviours, but no significant impact on post-investment behaviours. Investor risk appetite have significant impact on decision-making behaviours, but no impact on post-investment behaviours. The result of the interview shows capitalists' post-investment behaviours are concerned with capitalists' factors such as ability, resources, management mechanism.

Based on three theories: entrepreneurship theory, the decision behaviour and behavioural economics and psychology, we built a model. The model reveals "The Bewilderment of Decision-making" of VC. The research has reference

significance to establish investment decision-making indicators for Government management departments and industry associations.

Key words: Venture capitalists' trust; Investment behaviours; Structural equation model (SEM)

INTRODUCTION

Venture capital investments promote the growth of the rapid development of the national economy by supporting the entrepreneurs. (Gompers, P. and Lerner, J, 2001 Timmons J A and Bygrave W D,2009; Bernstein, S., Giroud, X. and Townsend, R. R. ,2016; Cumming, D. J., Grilli, L. and Murtinu, S. 2017) Each year thousands of entrepreneurs submit their business proposals to venture capitalists in the hope that they will receive the desired capital.(Petty, J. S., and Gruber, M. 2011) Maintaining cooperation and avoiding opportunism is essential for a healthy Venture Capitalist (VC) - Entrepreneur relationship, it is not surprising that a large number of studies seek to further understanding of VC investment behaviours. (e.g., Wells, 1974; Hoban, 1978; Tyebjee and Bruno,1984; MacMillan et al., 1985, 1987; Hall and Hofer, 1993; Zacharakis and Shepherd, 2003, 2005; Hall, R. E., and Woodward, S. E.,2010; Wang, L. and Zhou, F., 2017)¹

In reality, the rupture of the relationship between Venture Capitalists(VC) and Entrepreneurs has led to the fact that trust plays an important role in the VC decision making and post-investment behaviours. (Lane and Bachmann, 1996; Lewicki and Stevenson, 1997; Dyer and Singh, 1998; Bohnet and Zeckhauser, 2004; Skinner et al., 2013; Panda, S., & Dash, S. 2015) So it is important to study the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours. Based on the previous literature reviews, we found that there are main three views on the relationship between trust and behaviours.1) Trust is the premise of cooperation, and affects the cooperative behaviours. (e.g., Messick, 1983; Henager and Scamahorn,1996; Parks and Hulbert , 1995; Sullivan, A. J. 2013). Based on this view, scholar focus on studying the influence factors of trust building and found that decision maker evaluates partner trustworthiness according to factors such as social context, sense of worth, reputation matters, laws, personal ability and so on, then make a decision. (e.g., Zurker,1986; Lewicki & Bunker,1996; Yuling Cao and Suicheng Li 2011; Jesús David Sánchez,2014; Jie Li,2016). 2) Trust is the product of cooperation and their behaviours affect trust. Cooperation may simply be driven by a series of lucky practices at random, based on Game experiment. (Deutsh,1962,1973; Lewis & Weigert, 1985; Parks, 1998; Joyce Berg , 2001; P.J.Zak,2004; Cochard, Van and Willinger, 2004; Tabibnia,2008) 3) Cooperation main comes from individual pursuit of interest rather than trust.(Axelrod, 1984; Miller, 1992) . There is indeed a cooperation built up with incomplete trust and low trust, especially in the field of venture capital. (Barney & Hansen, 2005; Holm and Nystedt, 2008;

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Panda, S., and Dash, S. , 2015; Klein, G., & Shtudiner, Z. ,2016)These studies provide some support for our research, but also raises new questions. Trust and behavior which is a prerequisite factor? What are the influence factors that affect trust building? There must be some influencing factors lead to VC make an investment decision in the condition of incomplete trust and low trust and what they are? With the development of psychology and neuroscience, scholars have given answers to these questions to a certain extent. 1)Trust is a psychological state and changes over time (e.g., Rousseau,1998; Brooks King., 2005; Delgado,2005; Simpson,2007; Ning zhang, 2011;) Based on this view, the scholars realized the dynamic nature of trust. In the majority of articles is to focus upon building, stability, or decline and to specify conceptual frameworks within a particular phase. 2)Trust and behavior actually belong to different categories, trust will affect behavior, but behavior performance cannot fully explain the degree of trust. (Lining and Yanjin, 2005; Zhang, N., Zhang, Y., Wu, K, 2011) Based on this view, the cognitive process of trust and the formation process of behavior are distinguished. From the perspective of individual characteristics, scholars study the factors affecting the two processes. Related study illustrates that risk appetite is main factor leading to the asymmetry between trust and behaviour. Socloers study the relationship between risk appetite and investors' behaviors. (Eckel, C. C. & Wilson, K. R, 2004; Pericoli, M., & Sbracia, M. ,2009; Aven, T. 2013; Kaufmann, C., & Haisley, E. ,2013; Wei Li and Chuang Gao, 2013)

Based on the above arguments, we know venture capitalists' trust in entrepreneurs and their investment behaviours dose not interact directly. It is a complex system concerned with multiple factors, including the influencing factors at the initial stage of trust, capitalists' risk appetite, entrepreneurial behaviours, capitalists' decision-making behaviours, capitalists' post-investment behaviours are surely to interact in the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours. In order to develop a better understanding of the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours, in this paper, first, the model was established based on documentary evidence, speculative analysis and depth interviews methods. Second, we use the SEM to test the theory model and analyse the results. With the questionnaire survey method, collect data by issuing 323 questionnaire surveys of 104 Chinese venture capital firms which are divided into different regions by Global Entrepreneurship Monitor (GEM). Finally, obtain the affecting relations and the degree of influence among factors, as well as between factors and indicators. Then based on the result, analyse the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours.

Compared with existing efforts, our main contributions can be summarized as follows:1) We divide trust and behavior into two different processes, and we see trust as a factor of psychological state which affect the VCs investment behaviors.2) We consider the effects of individual characteristics, risk appetite, on the relationship between venture capitalists' trust in entrepreneurs and their

investment behaviours.3) We use SEM to simplify this complex system and obtain affecting relations among factors.

THEORETICAL FRAMEWORK

The influencing factors at the initial stage of trust and venture capitalists' trust in entrepreneurs.

Scholars have proved trust is the most determinate factor in the success of cooperation. (e.g. Williamson, 1975; Zucker, 1986; Gulati & Higgins, 2003; Stuart, 2000; Thorgren & Wincent, 2011; Jesús David Sánchez,2014) However they often treated trust as static and stable phenomena. Trust is not a behavior (e.g., cooperation), or a choice (e.g., taking a risk), but an underlying psychological condition that can cause or result from such actions. (Rousseau, D. M. and Sitkin, S. B., Burt ,1998) Trust changes over time—building, developing, declining, and even resurfacing in long-standing relationships (Miles & Creed, 1995). Lewicki and Bunker(1995) proposed a three-stage model of trust: calculus-based trust, knowledge-based trust and identification-based trust, which is widely accepted. Scholars carried a detailed analysis on influencing factors of trust in three stages: calculus-based trust: the degrees of punishment and fairness of law contract, third-party relations, entrepreneur's reputation, the market ; knowledge-based trust: background of the entrepreneurial organization, inner atmosphere of the entrepreneurial organization, professional ability of entrepreneurial organization, the scale of entrepreneurial organization; identification-based trust: cooperation experience between VC and E, communication, the sense of responsibility; the sense of loss (e.g., McAllister, Rocco, Rahim, Kanawattanachai and Yoo, Scheer, Sillince and Saeedi, Cummings and Bromiley, Tyler and Blader) Chuang Chen and Ying ye (2010),based on a multi-case study, reveals the influence factor of VCs trust in E: entrepreneur's process fairness, entrepreneur's reputation, entrepreneur's behavior consistency, entrepreneur's feedback timeliness, entrepreneur's ability, compatibility of values, binding of competition clause and punitive measures. Zhaohui Yi (2011) propose that although related research effectively reveals the evolution process of trust, they did not fully reveal the process of trust development between entrepreneurs and venture capitalists. Because the trust relationship between entrepreneurs and venture capitalists before they cooperate was ignored. His research indicated trust consists five dimension structures: initial trust, calculus-based trust, individual knowledge-based trust, organizational knowledge-based trust, emotional identification-based trust. Yuling cao and Suicheng LI (2011) ,Zonggua Ma (2012), Nelson(2012) el. classify the key factors affecting trust between enterprises: entrepreneur's characteristics (asset specificity, corporate reputation, ability, substitutability), relationship between the enterprise (communication, interdependence, resource complementarity, cooperation experience, commitment of symmetry), external factors (cultural compatibility, uncertainty, contract system).As a factor of psychological state which affect the VCs investment behaviors, in the process of venture capital, VCs trust in

entrepreneur start from a business plan. (Mason. C. & Stark, M. ,2004; Petty, J. S., & Gruber, M.,2011; Zaro, M. A.,2016). Overall, the literature indicates that VCs emphasize characteristics of (i) the venture team, (ii) the market, (iii) the product or service, (iv) the venture's financial potential, (v) entrepreneur's characteristics, (vi) institutional and regulatory environment. (vii) economic environment when making investment decisions. (e.g., Macmillan et al. ,1986; Riquelme and Rickards,1992; Muzyka et al.,1996; Zacharakis and Meyer, 2000; Srinivas and Nagaraja,2013; Monika Dhochak, A. K. Sharma.,2016)

At the initial stage of cooperation, VC evaluate the level of entrepreneur's trust by multiple factors. And our understanding of VC decision making continues to progress, these factors will affect their behaviors in the long run(Petty, J. S., and Gruber, M. ,2011) Therefore, the following hypothesis can be made:

Hypothesis 1: The influencing factors at the initial stage of trust (entrepreneur's characteristics, external factors, Relational factors) has a positive effect on venture capitalists' trust in entrepreneurs.

Venture capitalists' trust in entrepreneurs and investment behaviours

From the perspective of investment behaviour, related studies have illustrated that trust has an effect on both pre- and post-investment behaviours. Petty, J. S., and Gruber, M. (2011) found that keeping in touch with the VC and building a relationship of trust could prove to be a valid strategy of securing VC financing. Robert C. Forrester (2014) found that trust is an important force in explaining investor behaviour: investment size, investment strategy, decision-making time and so on. His research suggested that after making an investment, investors continue to interact with the entrepreneurs. Gender and risk perception also influence the degree of post-investment interaction. Bammens, Y., and Collewaert, V. (2014) examined how perceptions of entrepreneurs and angel investors concerning the degree of trust in their relationship impact the latter's assessments of venture performance. Results indicate that angel investors evaluate portfolio company performance more positively when they perceive high trust, whereas entrepreneurs' trust perceptions are negatively associated with angel investors' assessments of venture performance. Panda, S., & Dash, S. (2015) built a model of VC-Entrepreneur cooperation and found that high trust positively influences confidence in partner cooperation in early and growth stage VC-Entrepreneur relationship. They discussed the relationship between trust degree and control behaviour and found that 1) high trust and low control positively reinforce one another in early stage VC-Entrepreneur relationship, contributing positively towards confidence in partner cooperation; 2) high Control and low trust also can lead to a constant level of confidence in partner cooperation. Shiyu Zhang (2013); Wang, L. (2017) et al found that trust have an impact on capitalists' investment decision making and post-investment behaviours. They focus on analysing the post-investment behaviours such as supervisory behaviour, supportive behaviour and speculative behaviour. Therefore, the following hypothesis can be made:

Hypothesis 2: Venture capitalists' trust in entrepreneurs has a positive effect on capitalists' decision-making behaviours.

Hypothesis 3: Venture capitalists' trust in entrepreneurs has a positive effect on capitalists' post-investment behaviours.

But, the level of trust is a big difference in different entrepreneurs, even though investors make a same decision. The difference of trust is mainly reflected in Investment willingness, expected return, self-protection. (Tversky and Khanemnan 2004; Mayer et al. ,1995; Cheng, X., Fu, S. and Vreede, G. J. D. , 2017; Klabunde, A. ,2016) The higher the willingness to invest, the higher the expectation and the lower the degree of self-protection means the higher the degree of trust. So in our study, we use these factors as observational variables to measure the level of trust.

Capitalists' investment decision making and post-investment behaviour

In VCs investment progress, the capitalists' decision making must be affect their post-investment behaviours. Gomper (1996), Xiaobo Zheng and Xiaohui Wu (2012) found that considered agency costs, periodically, venture capitalists check the status of the project and terminate investment in projects that are difficult to generate returns. Wang, L. (2017) proposed that the greater the entrepreneur's financing need and private benefits, the more likely investors and entrepreneurs are to choose joint control. High-tech start-ups are more likely to choose a joint control model than those in traditional industries. Based on analysis above, we know that trust and capitalists' decision making both have positive relationship with capitalists' post-investment behaviours, but the affecting relations and the degree of influence among factors, as well as between factors and indicators should be further discussed. Therefore, the following hypothesis can be made:

Hypothesis 4: Capitalists' investment decision making has a positive effect on capitalists' post-investment behaviours.

Entrepreneurs' behaviors and capitalists' investment behaviors

Some scholars believe that trust is the product of cooperation and their behaviors affect trust. Cooperation may simply be driven by a series of lucky practices at random, based on Game experiment. (Deutsh,1962,1973; Lewis & Weigert, 1985; Parks, 1998; Joyce Berg , 2001; P.J.Zak,2004; Cochard, Van and Willinger, 2004; Tabibnia,2008) Scholars found that capitalists' investment behaviours will be affected by entrepreneur's behaviors such as: entrepreneur's process fairness, entrepreneur's behavior consistency, entrepreneur's feedback timeliness. But some scholars, from the perspective of trust, believe that entrepreneur's behaviors have an effect on venture capitalists' trust in entrepreneurs (e.g. Chuang Chen and Ying ye, 2010; Oviatt ,2008; Jourdan, L. F. J.,2012) Others, from perspective of conflict behaviour, believe that investment behavior is evolved from the interaction process of entrepreneur's behaviors. They did not consider trust as an influencing factor or a psychological state in

the process (Aggarwal, Rohit, David Kryscynski, and Harpreet Singh , 2015; Otchere, Isaac, and Anna Pi Vong., 2016; Panda, Swati., 2015 ; Swati Panda , Shridhar Dash , 2016; Zhelyazkov, Pavel I., and Ranjay Gulati, 2014) Therefore, the following hypothesis can be made:

Hypothesis 5: Entrepreneurial behaviours have a positive effect on venture capitalists' trust in entrepreneurs.

Hypothesis 6: Entrepreneurial behaviours have a positive effect on capitalists' decision-making behaviours.

Capitalists' risk appetite and capitalists' investment behaviors

With development of decision behaviour, behavioural economics and psychology, the cross-discipline research on relationship between the VC and E found that VCs investment behavior is influenced by individual factors. (Weitao Shen and Liufang Hu,2014; Fuguang Huang, Jiayi Meng & Li Tian., 2016; Liang Meng, 2016) The research of cognitive found that entrepreneurs have stronger innovative cognition and the higher risk appetite, faced with the same situation, they tend to see existing risks as smaller than others (Simon, 2000). As early as in 1984, Sexton and Begley confirmed that individual risk appetite is one of the main factors that influence the decision making behavior of entrepreneurs. Risk appetite is difficult to be measured, so scholars explain it based on capitalists' risk tolerance. It is possible to be measured from personal risk asset ratio (Malmendier and Tate,2005), the deviation of the project and the difficulty of the management project in the operation process. (Sitkin , S.B.,Weingart,L.R,1995; Yi Zhan, Hong Du,2008;Wei Li, 2013) Therefore, the following hypothesis can be made:

Hypothesis 7: Capitalists' risk appetite has a positive effect on their investment decision making.

Hypothesis 8: Capitalists' risk appetite has a positive effect on their post-investment behaviours.

The study models to verify the hypotheses in this section based on the theoretical background above are shown as Fig. 1.

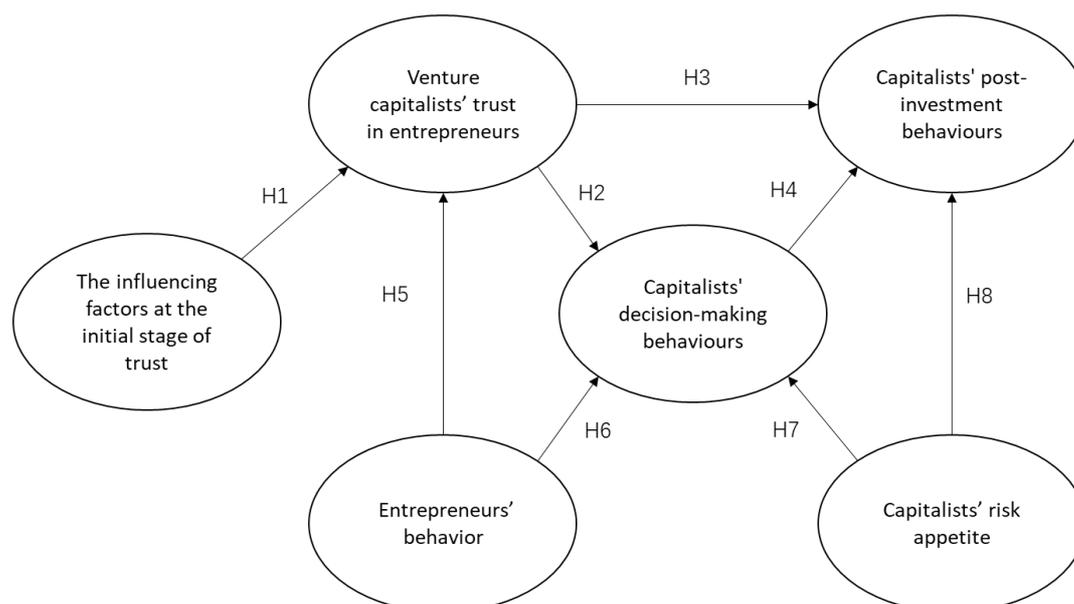


Figure 1: Theory model

RESEARCH METHODS

Research subjects and samples

The subjects of this study all had experience in venture capital investment. They included Venture Capitalists, Angel Investors, FOFs, Private Equity (PE) and those managers who have experience with VC investment.

The study questionnaire was sent out to 104 Chinese venture capital firms which are divided into drearily active entrepreneurial region, less active entrepreneurial region, active entrepreneurial region, more active entrepreneurial region by Global Entrepreneurship Monitor (GEM). out of 600 questionnaires, 392 were collected. Exempting those lacking in good faith and those with no answers, 323 final questionnaires were used in the final analysis.

Operational definitions of variables and measures

The variables of this study were measured using a ten-point Likert scale (1 = not at all, 10 = very much). Each category of variables was modified to the situation of the study based on the measuring categories, the reliability and appropriateness of which have already been verified in preceding theses (Cronin and Taylor, 1992, Shim; 2000).

The influencing factors at the initial stage of trust

This measure was adapted from classifying the key factors affecting trust between enterprises: entrepreneur's characteristics (asset specificity, corporate reputation, ability, substitutability), relationship between the enterprise (communication, interdependence, resource complementarity, cooperation experience, commitment of symmetry), external factors (cultural compatibility, institutional and regulatory environment, contract system, the market) (Yuling cao and Suicheng LI, 2011; Zonggua Ma,2012; Nelson,2012; Srinivas and

Nagaraja,2013; Monika Dhochak, A. K. Sharma.,2016 el.) Through the analysis, the satisfaction degree of investors on entrepreneur's characteristics, external factors, relational factors can reflect the investor's attitude to trust factors, so as to measure relationship between the influencing factors at the initial stage of trust and venture capitalists' trust in entrepreneurs.

Venture capitalists' trust in entrepreneurs

Because trust in an investment firm is made in a relatively short period of time, as a psychological state which affect the VCs investment behaviors. The difference of trust is mainly reflected in Investment willingness, expected return, self-protection. (Tversky and Khanemnan 2004; Mayer et al. ,1995; Cheng, X., Fu, S. and Vreede, G. J. D. ,2017; Klabunde, A. ,2016) High Investment willingness, high expectation , low self-protection means high trust.

Capitalists' decision-making behaviours

This measured capitalists' decision-making behaviours from investment size, investment strategy, decision-making time (S Shane and S Venkataraman Robert C; Forrester,2014; Bammens, Y., and Collewaert, V. ,2014; Panda, S., & Dash, S. , 2015) Different types of investors have different investment decision behaviors, but the impact of trust, entrepreneurs' behaviour, Capitalists' risk appetite on these behaviors should be analysed based on SEM.

Capitalists' post-investment behaviours

Capitalists' post-investment behaviours were measured on supervisory behaviour, supportive behaviour and speculative behaviour (Shiyu Zhang, 2013; Wang, L.,2017, el.) Supervisory behaviour of investment companies is one of the common characteristics of venture capital. (Pruthi, S., Wright, M., & Lockett, A., 2003) Supportive behaviours including financial support, strategic support, and management support promote EO of portfolio company. In addition to the possibility of moral hazard in venture capitalists, in fact, venture capitalists may also have opportunistic behavior in the process of investment, speculative behaviour is mainly manifested in pay too much attention to short-term interests.

Entrepreneurs' behaviors

Entrepreneurs' behaviors were measured on entrepreneur's process fairness, entrepreneur's behavior consistency, entrepreneur's feedback timeliness. (P.J.Zak,2004; Cochard, Van and Willinger, 2004; Tabibnia,2008) Venture capitalists' satisfaction degree on entrepreneurial behaviors can reflect the relationship between entrepreneurial behaviors and VCs trust and their investment behaviors.

Capitalists' risk appetite

Capitalists' risk appetite be measured on personal risk asset ratio (Malmendier and Tate,2005), the deviation of the project and the difficulty of the management

project in the operation process. (Sitkin , S.B.,Weingart,L.R,1995; Yi Zhan, Hong Du,2008;Wei Li, 2013) Based on the affecting relations and the degree of influence among factors analysis the relationship between Capitalists' risk appetite and their investment behaviors.

Base on analysed and selected, the latent variables and measurement variables show in table 1

Table 1: Model Variable Correspondence Table

Latent variables	Measurement variables
ξ_1 : Capitalists' risk appetite	x_1 : personal risk asset ratio
	x_2 : the deviation of the project
	x_3 : the difficulty of the management project
ξ_2 : Entrepreneurs' behaviors	x_4 : satisfaction degree on entrepreneur's process fairness
	x_5 : satisfaction degree on entrepreneur's behaviour consistency
	x_6 : satisfaction degree on entrepreneur's feedback timeliness
ξ_3 : The influencing factors at the initial stage of trust	x_7 : satisfaction degree on external factors
	x_8 : satisfaction degree on entrepreneur's characteristics
	x_9 : satisfaction degree on relational factors
η_1 : Venture capitalists' trust in entrepreneurs	y_1 : Investment willingness
	y_2 : expected return
	y_3 : self-protection
η_2 : Capitalists' decision-making behaviours	y_4 : investment size
	y_5 : investment strategy
	y_6 : decision-making time
η_3 : Capitalists' post-investment behaviours	y_7 : degree of supervision
	y_8 : degree of support
	y_9 : satisfaction degree on short-term interests

Methodology

After eliminating problematic questionnaires from the collected sample, the researchers in this study used SPSS 22.0 for Windows to obtain descriptive

statistics in order to conduct frequency analysis of the actual condition of the real estate investment and capital and tax improvements. Relationships among constructs were conducted through correlations analysis. Amos 21.0 was used to test the hypotheses of the research model.

TEST RESULTS

Reliability and validity analysis results

To verify the study model, a structural equation model analyzed the reliability of the measures, as fig 2. As a significance test, results shown in Table 2,3,4. Cronbach's α is 0.739 above 0.69. (Nunnally 1978) It shows that the data collected in this study have good reliability. The path coefficient of investment behaviours to post-investment behaviours is 0.473, critical ratio (CR) is 2.240, probability value(P) is 0.025. The results show that the path coefficient is significantly different from zero under the confidence of 95%, the original hypothesis was adopted. The path coefficient of risk appetite to post-investment behaviors is 0.388, CR is 2.236, P is 0.129. The path coefficient of trust to post-investment behaviors is 0.371, CR is 1.117, P is 0.127. The results show that the path coefficient is no significantly different from zero under the confidence of 95%. Capitalists' risk appetite and trust has no significant effect on their post-investment behaviours. Based on further interview, result shows capitalists' post-investment behaviours are concerned with capitalists' factors such as ability, resources, management mechanism. And scholars found that risk appetite and trust main affect decision progress based on ERP (event related potential) of neuroscience experiments (Fetchenhauer, D. & Dunning, D., 2008; Holt, C. & Laury, S., 2002; Fabiani et al., 2007) So in this study, we reject the original hypothesis 3 and hypothesis 8. The path coefficient of influencing factors at the initial stage of trust to trust is 0.485, CR is 1.273, P is 0.102. In this model research we found that the influencing factors at the initial stage of trust has no significant effect on venture capitalists' trust in entrepreneurs. In reality, this result was not adopted. Our research subjects are projects that have been invested, so investors ignore external factors, entrepreneur's characteristics, relational factors, they pay more attention to the entrepreneurs' behaviors. As the result shows that the path coefficient of entrepreneurs' behaviors to decision-making behaviors is 0.704. Based on the realistic consideration, hypothesis 1 was retained.

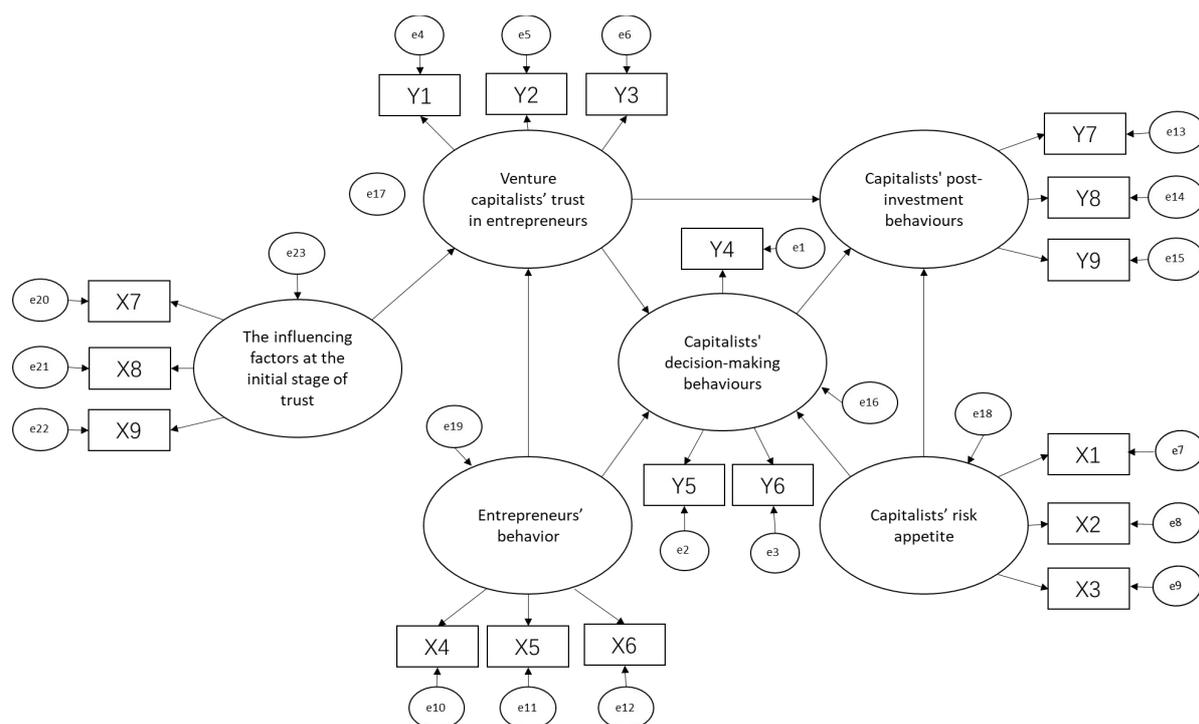


Figure 2: Initial model structure

Table 2: Coefficient Estimation Results

Reliability Statistic

Cronbach's Alpha	N of Items
0.739	18

Table 3: Coefficient Estimation Results

Regression Weights: (Group number 1-Default model)

	Estimate	S.E.	C.R.	P
Trust ←influencing factors at the initial stage of trust	.485	.381	1.273	.102
post-investment behaviors ←decision-making behaviors	.473	.211	2.240	.025
post-investment behaviors←risk appetite	.373	.334	1.119	.129
decision-making behaviors ←risk appetite	.384	.210	1.828	.048
X4 ←entrepreneurs' behaviors	1.000			
X5 ←entrepreneurs' behaviors	1.444	.314	4.601	***
X6 ←entrepreneurs' behaviors	.931	.218	4.269	***
Y7 ←post-investment behaviors	1.000			
Y8 ←post-investment behaviors	.803	.160	5.008	***
Y9 ←post-investment behaviors	1.138	.209	5.439	***

Y4 ←decision-making behaviors	1.000			
Y5 ←decision-making behaviors	.805	.118	6.807	***
Y6 ←decision-making behaviors	.988	.142	6.940	***
X1 ←risk appetite	1.000			
X2 ←risk appetite	.932	.250	3.724	***
X3 ←risk appetite	.275	.160	1.716	.086
Y1 ←trust	1.000			
Y2 ←trust	1.940	.692	2.805	.005
Y3 ←trust	.735	.371	1.980	.048
X7 ←influencing factors at the initial stage of trust	1.000			
X8 ←influencing factors at the initial stage of trust	.632	.446	1.417	.113
X9 ← influencing factors at the initial stage of trust	.578	.392	1.475	.106
decision-making behaviors ←trust	1.414	.797	1.774	.076
decision-making behaviors ←entrepreneurs' behaviors	.704	.162	4.351	***
trust ←entrepreneurs' behaviors	.408	.180	2.265	.024
post-investment behaviors ←trust	.371	.332	1.117	.127

Fitness test and model evaluation

Some fit index results of initial model are shown in table 5. RMSEA below 0.1 indicates good fitting; lower than 0.05 indicates very good fitting (Steiger, 1990) Comparative fit index (CFI), it is generally considered that it is greater than 0.9, indicating better fitting (Bentler & Bonett, 1980)

Table 4: Variance Estimation Results

Variances: (Group number 1-Default model)

	Estimate	S.E.	C.R.	P
post-investment behaviors	1.650	.466	3.542	***
e19	.169	.083	2.036	.029
e17	.126	.041	3.073	.003
e16	.107	.035	3.057	.003
e23	.148	.064	2.313	.025
e18	.199	.072	2.764	.005
e10	5.688	.523	10.884	***
e11	6.460	.626	10.325	***
e12	1.636	.177	9.265	***
e1	2.653	.300	8.838	***

e13	4.299	.479	8.970	***
e14	3.364	.359	9.370	***
e15	4.265	.517	8.245	***
e4	6.762	.626	10.795	***
e5	2.251	.450	4.999	***
e6	5.025	.461	10.891	***
e9	4.146	.376	11.014	***
e8	5.069	.573	8.844	***
e7	6.567	.714	9.198	***
e21	5.787	.806	7.179	***
e20	4.732	.531	8.911	***
e22	3.469	.328	10.576	***
e2	3.081	.312	9.886	***
e3	4.333	.442	9.796	***

Table 5: Some Fit Index Results of Initial Model

Item	Result	Evaluation
χ^2	143.862	—
RMSEA	0.054*	adopted
CFI	0.874 \approx 0.9**	adopted
AIC	217.862	—

Verification of modified model

Based on analysis above, we reject the original hypothesis 3 and hypothesis 8, delete the path of risk appetite to post-investment behaviors. The results of modified model are shown in Table 6,7.

Table 6: Some Fit Index Results of Initial Model

Item	Result	Evaluation
χ^2	145.799	—
RMSEA	0.054	adopted
CFI	0.872 \approx 0.9	adopted
AIC	247.799	—

Table 7: Coefficient Estimation Results

Regression Weights: (Group number 1-Default model)

	Estimate	S.E.	C.R.	P
Trust ←influencing factors at the initial stage of trust	.471	.374	1.259	.104
post-investment behaviors	.552	.193	2.864	.004
←decision-making behaviors	.716	.150	4.763	***
decision-making behaviors	.716	.150	4.763	***
←risk appetite	1.000			
X4 ←entrepreneurs' behaviors	1.000			
X5 ←entrepreneurs' behaviors	1.421	.306	4.646	***
X6 ←entrepreneurs' behaviors	.920	.212	4.338	***
Y7 ←post-investment behaviors	1.000			
Y8 ←post-investment behaviors	.842	.167	5.031	***
Y9 ←post-investment behaviors	1.139	.214	5.321	***
Y4 ←decision-making behaviors	1.000			
Y5 ←decision-making behaviors	.798	.118	6.735	***
Y6 ←decision-making behaviors	.994	.143	6.954	***
X1 ←risk appetite	1.000			
X2 ←risk appetite	.805	.223	3.608	***
X3 ←risk appetite	.277	.153	1.813	.037
Y1 ←trust	1.000			
Y2 ←trust	1.928	.684	2.819	.005
Y3 ←trust	.707	.358	1.976	.025
X7 ←influencing factors at the initial stage of trust	1.000			
X8 ←influencing factors at the initial stage of trust	.606	.451	1.344	.129
X9 ← influencing factors at the initial stage of trust	.588	.404	1.455	.109
decision-making behaviors	1.245	.678	1.837	.032
←trust	.698	.157	4.434	***
decision-making behaviors	.698	.157	4.434	***
←entrepreneurs' behaviors	.388	.173	2.236	.017
trust ←entrepreneurs' behaviors	.388	.173	2.236	.017

Results and discussion

Standardized regression weights shown in table 8 and Standardized estimates shown as Fig. 3

Table 8: Standardized Regression Weights

	Estimate
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Trust ←influencing factors at the initial stage of trust	.381
post-investment behaviors	.509
←decision-making behaviors	.583
decision-making behaviors ← risk appetite	.583
X4 ←entrepreneurs' behaviors	.485
X5 ←entrepreneurs' behaviors	.395
X6 ←entrepreneurs' behaviors	.308
Y7 ←post-investment behaviors	.520
Y8 ←post-investment behaviors	.507
Y9 ←post-investment behaviors	.571
Y4 ←decision-making behaviors	.643
Y5 ←decision-making behaviors	.527
Y6 ←decision-making behaviors	.548
X1 ←risk appetite	.403
X2 ←risk appetite	.366
X3 ←risk appetite	.150
Y1 ←trust	.540
Y2 ←trust	.643
Y3 ←trust	.399
X7 ←influencing factors at the initial stage of trust	.378
X8 ←influencing factors at the initial stage of trust	.414
X9 ← influencing factors at the initial stage of trust	.502
decision-making behaviors	.883
←trust	.607
decision-making behaviors ←entrepreneurs' behaviors	.607
trust ←entrepreneurs' behaviors	.462

The influencing factors at the initial stage of trust and entrepreneurs' behaviours have positive effect on venture capitalists' trust in entrepreneurs. Direct effect coefficients were 0.381 and 0.462 respectively. The influence of entrepreneurs' behaviors on trust is greater than the influencing factors at the initial stage of trust. In our study, we made a detailed definition of trust factors, based on these factors VC evaluate the level of entrepreneur's trust at the initial stage of cooperation. And in the process of cooperation, venture capitalists' trust in entrepreneurs will still be affected by these factors. Although external factors,

entrepreneurs' characteristics factors and relationship factors will change with cooperation and affect investors' trust, more investors focus on the entrepreneurs' behaviors after the investment. Whether process fairness, behaviour consistency and feedback timeliness have reached the level of investor satisfaction, investors mainly through these to consider the credibility of entrepreneurs.

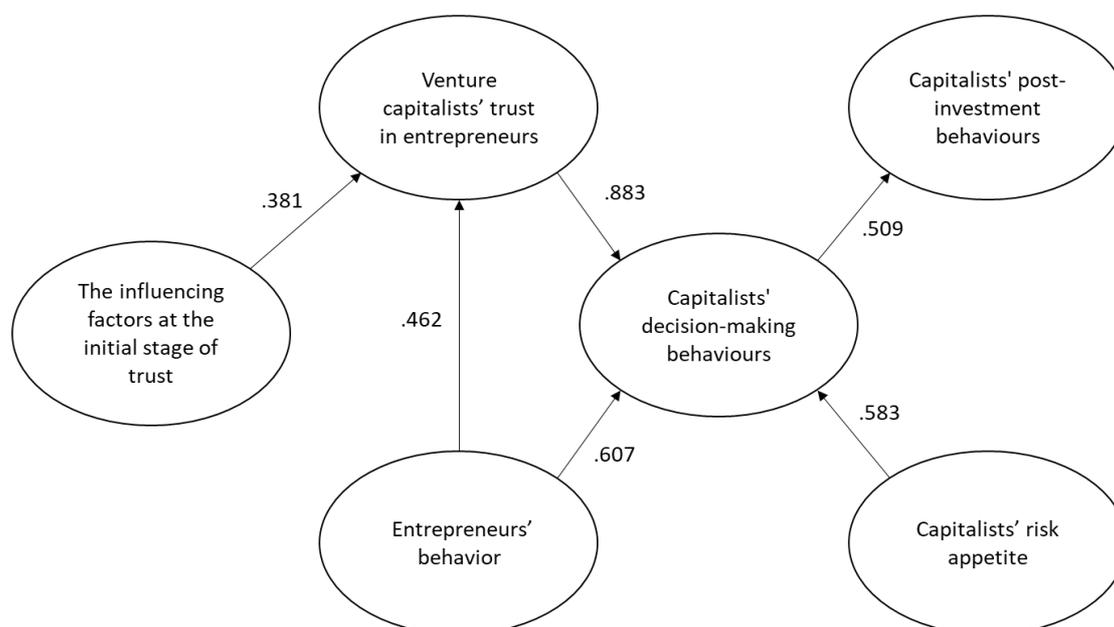


Figure 3: Initial model structure

Venture capitalists' trust in entrepreneurs, entrepreneurs' behaviours and capitalists' risk appetite have positive effect on capitalists' decision-making behaviours. Direct effect coefficients were 0.883, 0.607, 0.583 respectively. Effect coefficients of entrepreneurs' behaviours to capitalists' decision-making behaviours was 1.015 ($0.462 \times 0.883 + 0.607$). Entrepreneurial behaviours pose greater influence on capitalists' decision-making behaviours than trust and risk appetite. As some scholars hold that trust is the product of cooperation, the relationship between VC and E develops with their interaction behaviors. Risk appetite has a lower impact on investment behaviour than other factors, which shown that risk appetite does not show significant influence on investment decision after investment. And we found venture capitalists generally have higher risk appetite, which restrict the study on influence relations between risk appetite and investment behaviors.

Venture capitalists' trust in entrepreneurs, entrepreneurs' behaviours, capitalists' decision-making behaviours and capitalists' risk appetite have positive effect on capitalists' post-investment behaviours. Direct effect coefficient of decision-making behaviours to capitalists' post-investment behaviours was 0.509. Effect coefficients of venture capitalists' trust in entrepreneurs, entrepreneurs' behaviours, capitalists' risk appetite to capitalists' post-investment behaviours were 0.449 (0.883×0.509), 0.309 (0.607×0.509), 0.297 (0.583×0.509) respectively. We found capitalists' decision-making behaviours have direct effect on

capitalists' post-investment behaviours. The increase of trust will lead to the increase of investor's investment degree, and the investment behaviors have positive effect on post-investment behaviours. It shows that the investment size, strategy, decision-making time will affect supervisory behaviour, supportive behaviour and speculative behaviour. Other factors have indirect effects on capitalists' post-investment behaviours. Because capitalists' post-investment behaviours were influenced by capitalists' ability, resources, experience, management mechanism and other VCs within the industry. (Manigart et al., 2006; Ahlstrom and Bruton, 2006; Guler, 2007; Robert C. Forrester, 2014) So the influence of trust, entrepreneurs' behaviours and capitalists' risk appetite on post-investment behaviours is not significant.

CONCLUSION

The results of this study of investor behavioral factors came from an empirical analysis of samples from investors by issuing 323 questionnaire surveys of 104 Chinese venture capital firms which are divided into different regions by Global Entrepreneurship Monitor (GEM). In research on the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours, model constructed between the factors: the influencing factors at the initial stage of trust, investor risk appetite, entrepreneurial behaviours, capitalists' decision-making behaviours, capitalists' post-investment behaviours and tested based on SEM, showed that 1) entrepreneurial behaviours pose greater influence to the trust compared with the influencing factors at the initial stage of trust. Entrepreneurial behaviours also have significant impact on capitalists' decision-making behaviours. Entrepreneurial behaviour is a key factor for the relationship between venture capitalists' trust in entrepreneurs and their investment behaviours. 2) Trust have significant impact on capitalists' decision-making behaviours, but no significant impact on post-investment behaviours. Investor risk appetite have significant impact on decision-making behaviours, but no impact on post-investment behaviours.

The research reveals "The Bewilderment of Decision-making" of VC, which facilitates better understanding of venture capitalists' investment decision makings and post-investment activities, and the valuable fit between venture capital firms and invested enterprises and has reference significance to establish investment decision-making indicators for Government management departments and industry associations. While the findings presented in this study provide a number of new insights into VC investment behaviors, many questions still remain unanswered. In order to better understand the entire process of VC activity, further research on this complex relationship is necessary. This research just carried on a study from the perspective of venture capitalists. Influence factors of trust between venture capitalists and entrepreneurs is asymmetric. Entrepreneurs' trust in Venture capitalists will have an effect on their investment behaviours.

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