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Abstract.

We examine the relationship between a society’s legal system, the strength of venture capital contracts, and venture performance. Particularly, we are interested in the questions: does the venture capital sector require a strong legal system in order to flourish, or can it survive based upon implicit relationships such as empathy? How does the strength of the legal system affect the optimality of tough or weak contracts? We develop a double-sided moral hazard model in which an entrepreneur and a venture capitalist both exert unobservable value-adding efforts in a venture. The venture capitalist can select a strong contract, containing a punishment threat for entrepreneurial poor performance, or a weak contract which contains no such threat. However, the ability to punish the entrepreneur depends on the effectiveness of the legal system. Furthermore, selection of the strong contract destroys trust and empathy between the parties, adversely affecting performance. A strong contract is optimal if the legal system is strong and empathy is low, while a weak contract is optimal if the legal system is weak and empathy is high. We discuss international policy implications, and present results from our survey of Chinese venture capitalists that supports our model.

The venture capitalist sector provides an important source of financing for economic wealth-creation and growth. In recent years, venture capital has become increasingly significant in developing, as well as developed countries. For example, Allen and Song (2002) report that there has been a rapid growth of venture capital funding in the US, UK and Asia since 1993. Accordingly, researchers are beginning to focus on whether venture capital may be affected by the specific institutional, legal and cultural factors pertaining to particular societies.

An emerging area of research has analysed the relationship between legal and corporate governance systems around the world, capital market development, and firms’ financing choices. However, much of the existing research focuses on the effects of corporate governance on publicly traded firms. For example, La Porta et al have written several research papers on the effects of the legal system and shareholder protection on the development of capital markets (1997), dividend policies around the world (2000), the concentration of equity ownership (1999), and the relationship between investor protection and corporate governance (1998). Klapper and Love (2004) examine the relationship between corporate governance rankings and legal systems in emerging markets. Laeven and Majnoni (2004) demonstrate that an increase in judicial efficiency lowers the cost of credit in a large sample of countries. Demirguc-Kunt and Maksimovic (1999) examine the relationship between a country’s institutions, the nature of its financial markets, and the maturity of debt.

Recently, some researchers (e.g., Allen and Song 2002; Allen et al 2002; Bruton et al 2002; Cumming and Fleming 2002; Kaplan et al 2003; Botazzi et al 2004; Cumming
et al 2004; Lerner and Schoar 2004) have begun to focus on the effects of the legal system, corporate governance and culture on contracting and performance in the venture capital sector.

Bottazzi et al (2005) develop a double-sided moral hazard model in which the performance of the venture increases with the strength of the legal system, since a tougher system encourages more governance by the VC, and higher value-adding efforts by the VC and the entrepreneur. Their empirical analysis supports this contention.

In contrast, Allen and Song (2002) find that the rule of law and the importance of venture capital contracts are negatively related; countries with less law and order have a higher degree of venture capital finance. They argue that implicit relationships between VCs and entrepreneurs are more important than explicit contracts, and that a weaker governance system encourages VC/E cooperation, and enhances performance.

Kaplan et al (2003) examine the relationship between legal systems and venture capital contracting and financing in 23 developed non-US countries. Lerner and Schoar (2004) provide a similar analysis for developing countries. Cumming et al (2004) find a positive relationship between the quality of the legal system and the exercise of governance in 39 developed and developing countries.¹

In this paper, we contribute to the debate by developing a double-sided moral hazard model relating to venture capital performance. We particularly focus on the following questions. Firstly, does the venture capitalist sector require a strong legal system to flourish, or can it survive in a weak legal regime, since it relies on both explicit contracting and implicit factors such as cooperation, empathy and trust between venture capitalists and entrepreneurs? Secondly, which types of contract (strong or

¹ This review comes from Botazzi et al (2005).
weak) are optimal under strong and weak legal regimes, if strong contracting destroys cooperation, empathy and trust?

Our theoretical model builds on the existing venture capital double-sided moral hazard models in two main ways. First, we employ a psychological game-theoretic approach\(^2\) (specifically, we incorporate the sympathy game developed by Sally 2001) in order to examine the effects of tough contracting on cooperation and performance.

Secondly, we analyse the interaction between empathy and legal effectiveness.

The current research into venture capital contracting began with Sahlman’s (1990) seminal paper. The early financial contracting models (e.g., Baker and Gompers 1999) assumed a pure principal-agent relationship in which the venture capitalist, as principal, suffers from moral hazard problems from the entrepreneur, as agent. However, Smith (1998) argues that both parties contribute to wealth creation, and therefore a form of double-sided moral hazard exists. Recently, models have been developed to analyze this type of agency problem (e.g., Casamatta 2003, Elitzur and Gavious 2003, Fairchild 2004, Repullo and Suarez 2004). In each of these models, the entrepreneur and the venture capitalist both supply value-adding effort, and double-sided moral hazard exists due to the parties’ incentives to shirk. The first-best financial contract maximises firm value. However, Fairchild (2004) demonstrates that the ability to achieve the first-best contract is affected by the players’ relative bargaining powers and value-adding abilities.

The existing financial contracting models assume that entrepreneurs and venture capitalists maximize utility based on narrow self-interest. However, behavioral economists are increasingly recognizing that relationships may be affected by psychological factors, such as feelings of fairness and reciprocity (e.g., Bolton 1991,

\(^2\) In a psychological game, players form best responses in strategies and emotions. Psychological games were first developed by Geanakopolis et al (1989).
Rabin 1993, Fehr and Schmidt 1999, Bolton and Ockenfels 2000), empathy (e.g., Sally 2001), and trust (e.g., Berg et al 1995, Bolle 1995, Huang 2000, Bacharach et al 2001). Furthermore, these feelings may affect the outcomes of negotiations and performance.

Following Fehr and Schmidt’s (1999) model of inequity aversion (in which players are concerned about fairness of outcomes), experimental principal-agent games (e.g., Anderhub et al 2001, Fehr et al 2001, Fehr and Gächter 2002, Fehr and Schmidt 2004) reveal that the principal frequently offers equity, and the agent frequently exerts effort, in excess of the minimal levels predicted by game theory. Therefore, these experiments provide empirical support for mutual feelings of fairness.

Although no explicit game-theoretic models exist examining the impact of fairness on venture capitalist/entrepreneur relationships and performance, conceptual approaches exist. For example, Cable and Shane (1997) focus on post-investment performance, and argue that mutual cooperation between the entrepreneur and the venture capitalist is important for project success. They further consider how the parties may trade-off short run gains from ‘defection’ versus long-run gains from ‘cooperation.’ The authors consider the use of the prisoner’s dilemma framework for considering this situation. They argue that the prisoner’s dilemma approach is superior to existing research that uses the agency perspective.

Lehtonen et al (2004) compare the agency approach with Procedural Justice (PJ) Theory, and argue that the latter focuses on the perceived sense of fairness in making decisions. According to PJ, the more one party perceives a procedure to be fair, the greater they will trust the other party. Kim and Mauborgne (1991, 1993) argue that an increase in a person’s perception of fairness may lead to an increase in commitment to

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3 Fairchild (2006a, 2006b) has recently developed the first double-sided moral hazard models to incorporate fairness. In contrast to the current paper, he employs a non-psychological game-theoretic approach.
decisions, performance, behavior and attitude. Sapienza and Korsgaard (1996) provide empirical evidence that a person’s willingness to share information and provide timely feedback signals his openness and honesty.

Therefore, Procedural Justice Theory may be particularly relevant to the venture capitalist/entrepreneur relationship. Sapienza (1989) argues that VCs often complain that entrepreneurs are reluctant to share information. De Clercq and Sapienza (2001) argue that increased trust and communication between entrepreneurs and venture capitalists can create ‘relational rents’.

Shepherd and Zacharakis (SZ 2001) discuss the relationship between contractual control and trust in venture capitalist/entrepreneur relationships. They consider whether control and trust are substitutes or complements in increasing the players’ cooperation. In contrast to Cable and Shane (1997), who view control and trust as substitutes, SZ posit a curvilinear relationship (an inverted U shape) between control and trust, where medium control is optimal (that is, it maximises trust).

The model in this paper is closely related to the conceptual discussion of Shepherd and Zacharakis. However, whereas they discuss the relationship between control and trust, we model the relationship between the effectiveness of the legal system (a stronger legal system encourages tougher contracting, and increases the probability of the entrepreneur facing contractual penalties for failure) and empathy (which promotes cooperative efforts by the VC and the E). In our model, control and empathy/cooperation are substitutes. That is, a tough contract, with high penalties, destroys empathy and cooperation.

The main results of our model are as follows. Tough contracts are value-maximising when cultural closeness is low and the legal system is highly effective. Soft contracts are effective when cultural closeness is high and the legal system is highly ineffective.
Researchers are beginning to consider the characteristics of venture capital contracts around the world, particularly comparing venture capital in developed, well-established economies, such as the UK or the US, with less developed, emerging markets, such as China. Our model could be used to inform this analysis, since it suggests a two-way classification system of optimal contracts (soft or tough) based on governance and cultural closeness. For example, some researchers argue that China is characterised by weak governance and high cultural closeness. Our model would suggest that soft contracts would be optimal. However, it appears in reality that Chinese VC contracts are quite tough. We provide an extensive discussion of Chinese venture capital in section 5.

The rest of the paper is organised as follows. In section 1, we present the model. In section 2, we demonstrate the key results graphically. In section 3, we provide policy implications. In section 4, we consider an application of our model to the particular case of China. In section 5, we present results from our small pilot survey of Chinese venture capitalists. Section 6 concludes.

1. The Model.

We develop a double-sided moral hazard model (which employs a psychological game-theoretic approach) in which a risk-neutral entrepreneur (E) has an innovative idea, but lacks the personal funds to start his venture. He therefore approaches a risk-neutral venture capitalist (VC) for start-up finance.
The sequence of events is as follows. At date 0, the VC and the E enter the
contracting stage of the game. At date 1 and 2, we enter the sympathy game, with the
E selecting a sympathy level at date 1, and the VC selecting a sympathy level at date
2. At date 3, VC and E simultaneously select unobservable effort levels. These effort
levels affect the date 4 probability of success. If the venture fails at date 4, then, if the
tough contract had been selected by the VC at date 0, there is a probability (depending
on the effectiveness of the legal system) that the entrepreneur faces the penalty for
failure. If the weak contract had been selected, then there is no penalty for failure. Of
course, if the venture succeeds at date 4, there is no penalty whichever contract has
been selected.

1.1 The Contracting Stage.

When modelling VC/E contracting, it is possible to consider a pre-investment stage,
where the players enter into negotiations over the contract (in terms of cash flow and
control rights), followed by a post-investment stage, where the players input value-
adding efforts into running the venture. However, in our model, we simplify the
analysis of the contractual stage by taking as given that the players have agreed on an
equal allocation of the cash flows. In terms of the control rights (represented by the
toughness or weakness of the contract), we effectively have a dictator game, where
the VC selects the strength of the contract, without requiring agreement from the E.
We model the strength of the contract as follows. The contract specifies a penalty $f$
for entrepreneurial failure, with $f \in \{0, F > 0\}$ for the weak and tough contracts
respectively.

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4 Here we merely provide an outline of events. We examine the game in more detail in subsequent
sections of the paper.
1.2 The Sympathy Sub-game.

We take a psychological game-theoretic approach (see footnote 2), in which we incorporate empathetic feelings into the game. In order to do so, we employ the sympathy game developed by Sally (2001). Sally considers an effective sympathy function between player $i$ and $j$, as follows:

$$i\Lambda_j = i\lambda_j + i[ j\lambda_i - i\lambda_j ],$$

where $i\Lambda_j$ represents the effective sympathy that $i$ feels for $j$, $i\lambda_j$ is the actual sympathy that $i$ feels for $j$, and $j\lambda_i$ is the actual sympathy that $j$ feels for $i$. Taken together, each player’s choice of actual sympathy determines the effective sympathy. By formulating it in this way, we can hence consider each players’ best response in actual sympathy levels. This therefore has the features of a psychological game, in which, in equilibrium, players form best responses in terms of actions and emotions. Hence, psychological games, such as the sympathy game, embody reciprocation of emotions; sympathy in one player may be met by sympathy by the other, while spite by one player may be met by spite by the other.

Sally (2001) notes that psychological games can become very complex to solve, with possible multiple equilibria. Furthermore, he discusses how sympathy may be affected by psychological or spatial closeness, which he incorporates within actual sympathy $i\lambda_j$ in a rather complex manner.

In our model, the sympathy game is part of an overall game, and so we wish to make the sympathy game as simple as possible. We therefore amend Sally’s game in four ways. Firstly, we only allow the players to choose from one of two sympathy levels,
zero sympathy or full sympathy; \( \lambda_j \in \{0,1\} \). Secondly, we multiply the effective sympathy by a parameter \( \theta \) representing “closeness,” which greatly simplifies the analysis. Thirdly, we allow the players to choose their sympathy levels sequentially, rather than simultaneously. Fourthly, in order to consider the effects of the contract selection on empathy, we multiply effective sympathy by \( \frac{F - f}{F} \). Note that if the VC selects the soft contract, such that \( f = 0 \), \( \frac{F - f}{F} = 1 \). This means that the soft contract does not destroy empathy. However, if the VC selects the tough contract, such that \( f = F \), \( \frac{F - f}{F} = 0 \). This means that the tough contract destroys empathy.

Hence, in summary, our empathy parameter is \( \Lambda_j \theta(\frac{F - f}{F}) \).

The details of the sympathy sub-game are as follows. Following the VC’s date 0 contract selection, we enter the sympathy sub-game. At date 1, E selects zero sympathy or full sympathy; \( \lambda_{vc} \in \{0,1\} \). At date 2, VC responds by selecting zero sympathy or full sympathy; \( \lambda_{mc} \in \{0,1\} \).

Following the VC’s contract selection, we enter into the sympathy sub-game. In contrast to Sally (2001), we simplify the sympathy game in two ways. First, we allow the players to choose sympathy levels sequentially, with E selecting first, and then VC ‘observing’ E’s choice, and responding with her selection of sympathy level. Second, we allow each player to choose from two possible levels; full sympathy, or zero sympathy.

We model control and empathy as substitutes in the following way. If the VC chooses the soft contract, the players have empathetic feelings towards each other. However, if the VC chooses the tough contract, this destroys feelings of empathy.
1.3 Effort levels.

At date 3, VC and E simultaneously select unobservable effort levels $e_m$ and $e_{vc}$. These effort levels affect the date 4 probability of success $P$ of the venture as follows: $P = \gamma_m e_m + \gamma_{vc} e_{vc}$. The players face cost of effort $c(e) = \beta e^2$. At date 4, the project succeeds with probability $P$, in which case it provides income $R > 0$. It fails with probability $1 - P$, in which case, it provides income of zero.

1.4 Effectiveness of the legal system.

If the venture fails at date 4, there is a probability $q \in [0,1]$ that the entrepreneur faces the penalty according to the contract selected by the VC at date 0. Probability $q$ may be thought of as the strength of corporate governance in the form of the legal system. That is, it may be thought of as the probability of the VC enforcing the penalty on the E, using the courts, given that the venture has failed.

In our first two-player version of the game, $q$ is exogenously given. In section 3, we add a third player (the regulator) who can invest in improving the governance system, which increases $q$.

The society’s cultural closeness is represented by $\theta \geq 0$. Increasing $\theta$ represents increasing closeness within a culture, while $\theta = 0$ represents a “cold and distant” culture.

2. Equilibrium.
We solve this game by backward induction. That is, we firstly take as given the VC’s date 0 contract choice, the E’s date 1 sympathy choice, and the VC’s date 2 sympathy choice, and we solve for the players’ optimal date 3 effort levels. Then we move backwards to solve for the optimal sympathy levels, and finally we solve for the VC’s equilibrium choice of contract. We relegate the full analysis of this game to the appendix.

The players’ date 0 expected payoffs are as follows:

\[
\Pi_m = \frac{PR}{2} - (1 - P)qF - \beta e_m^2 + \Lambda_j \theta \left( \frac{F - f}{F} \right) x_m, \tag{1}
\]

\[
\Pi_w = \frac{PR}{2} - \beta e_w^2 + \Lambda_j \theta \left( \frac{F - f}{F} \right) x_m. \tag{2}
\]

The first term of equation (1) represents the entrepreneur’s share of the expected project value. The second term represents the entrepreneur’s expected penalty cost for failure. The third term represents his cost of effort.

The first term of equation (2) represents the VC’s project share. The second term represents her cost of effort.

The final terms of each equation represent the effective sympathy levels, as described in sub-section 1.2.

Given the players’ objective functions (1) and (2), we derive the following results.
Lemma 1: The Players’ Equilibrium effort levels, sympathy levels, firm value, and payoffs, given the VC’s choice of date 0 contract:

a) If the VC chooses the tough contract at date 0 \((f = F)\), sympathy is destroyed. The optimal effort levels are \(e^*_m = \frac{\gamma_m}{2\beta} (\frac{R}{2} + qF)\), and \(e^*_{vc} = \frac{\gamma_m R}{4\beta}\). Therefore, the firm value is \(V^* = \frac{(\gamma_m^2 + \gamma_{vc}^2)R^2}{4\beta} + \frac{\gamma_m^2 qFR}{2\beta}\). The VC’s expected payoff is

\[
\Pi_{vc} = \frac{\gamma_{vc}^2 R^2 + 2\gamma_m^2 R^2 + \gamma_m^2 qFR}{16\beta}.
\]

b) If the VC has chosen the soft contract at date 0 \((f = F)\), sympathy is not destroyed. In equilibrium, \(M\) chooses maximum sympathy level \(\lambda_m^* = 1\), and VC chooses maximum sympathy level \(\lambda_{vc}^* = 1\). The optimal effort levels become

\(e^*_m = \frac{(1+\gamma_m R)}{4\beta}\), and \(e^*_{vc} = \frac{(1+\gamma_{vc} R)}{4\beta}\). The value of the firm becomes

\[
V^* = \frac{(1+\gamma_m^2 + \gamma_{vc}^2)R^2}{4\beta}.
\]

VC’s expected payoff is

\[
\Pi_{vc} = \frac{R^2[(1+\gamma_{vc}^2 + (2(1+\gamma_m^2) - \gamma_m^2)]}{16\beta}.
\]

Proof: See appendix.
Note that, in order to focus the analysis, we do not present the entrepreneur’s expected payoff in lemma 1, since this does not provide any insights and is unnecessary for deriving the equilibrium of the game.\(^5\)

Lemma 1 provides the following insights. First, consider the case where the entrepreneur and the VC have identical ability \((\gamma_m = \gamma_{vc} = \gamma)\). Under the tough contract (lemma 1a) the entrepreneur and the VC exert the same effort levels if the legal system is completely ineffective \((q = 0)\). As the legal system becomes more effective (increasing \(q\)), the entrepreneur increases his effort level (since he increasingly fears the punishment for failure). The VC’s effort level is independent of the effectiveness of the legal system, and is therefore unchanged by increasing \(q\).

Under the soft contract (lemma 1b), if the E and the VC have equal ability, they exert equal effort for all levels of the closeness parameter \(\theta\). Furthermore, both parties’ effort levels are increasing in \(\theta\). This emphasises that the tough contract drives higher entrepreneurial effort through a punishment effect, while the soft contract induces higher efforts from both parties through cooperation and empathy (which supports the conceptual approaches of Cable and Shane 1997, Shepherd and Zacharakis 2001).

Furthermore, comparison of lemma 1a) and lemma 1b) provides us with the following important result:

**Lemma 2:** Firm value is identical under the tough contract with zero penalties, and the soft contract with zero closeness, and equals

\[
V_{Tough}^* (q = 0) = V_{Soft}^* (\theta = 0) = \frac{(\gamma_m^2 + \gamma_{vc}^2)R^2}{4\beta}. \quad \text{Both } \frac{\partial V_{Tough}^*}{\partial q} > 0 \quad \text{and}
\]

\(^5\) On the other hand, since the VC selects the type of contract at date 0, the VC’s expected payoff IS required in order to solve the equilibrium of the game, as we demonstrate subsequently in proposition 1.
\[ \frac{\partial V_{\text{Soft}}}{\partial \theta} > 0. \] That is, firm value under the tough contract increases with increases in legal effectiveness (due to entrepreneurial fear of punishment for failure), and firm value under the soft contract increases with increases in closeness (due to increases in both players’ cooperative efforts).

In order to solve the equilibrium of the entire game, it remains to determine VC’s optimal choice of contract at date 0. We solve by comparing the VC’s payoffs under \( f = F \) and \( f = 0 \) in lemma 1. Furthermore, we consider whether this choice is value-maximising or minimising. We do so by comparing the value of the firm under \( f = F \) and \( f = 0 \) in lemma 1. We define two critical governance parameters \( q' \) and \( q'' \). We thus obtain our main result;

**Proposition 1:** The VC’s equilibrium choice of contract and the effect on firm value is affected by governance and closeness as follows:

a) The VC chooses the soft contract if \( q < q'' = \frac{[(2\theta + \theta^2)\gamma_{mc}^2 + (3\theta - \theta^3)\gamma_m^2]R}{4\gamma_m^2 F} \). Otherwise, she chooses the tough contract.

b) Firm value under the soft contract (with zero penalties) is higher than firm value under the tough contract (with positive penalties) if \( q < q' = \frac{\theta[\gamma_m^2 + \gamma_{mc}^2]R}{2\gamma_m^2 F} \). Otherwise, firm value under the tough contract is higher.

In the next section, we consider the policy implications of our model.
2. Graphical Analysis of the Model.

In order to consider the policy implications of our model, we firstly present the results of the model graphically. Diagram 1 demonstrates the critical governance parameters described in proposition 1.

*Diagram 1: the effect of cultural closeness and corporate governance on contract choice and firm value.*

Diagram 1 demonstrates the intervals in which the soft or tough contracts are optimal as a result of varying combinations of legal effectiveness and closeness. The dotted line represents $q''$ (the critical governance probability at which the VC switches from the soft to tough contract) as a function of closeness $\theta$. The solid line represents $q'$
the critical governance probability at which the firm value becomes higher under the
tough contract compared to the soft contract) as a function of $\theta$. Consider an
exogenously given closeness parameter (for example, $\theta = 0.5$). Consider increases in
legal effectiveness (that is, moving vertically upwards through the intervals of the
graph). We may state the following.

Given the closeness parameter, in the lowest interval (the lowest levels of legal
effectiveness), the VC chooses the soft contract, and this is value-maximising. In the
middle interval (medium levels of legal effectiveness), the VC continues to choose the
soft contract, but this is value-minimising. In the uppermost interval (highest levels of
legal effectiveness), the VC switches to the tough contract, and this is value-
maximising.

Diagram 1 can be used to inform the policy debate on whether tough or soft contracts
are optimal. It suggests that the optimality depends on the combination of legal
effectiveness and closeness. For example, if legal effectiveness is low and/or
closeness is high, we may be in the upper interval of diagram 1. This suggests that
soft contracts are optimal. On the other hand, if legal effectiveness is high and
closeness is low, we may be in the lower interval, in which case the tough contract
will be optimal.

Diagram 2 demonstrates the relationship between legal effectiveness, cultural
closeness, type of contract and firm value. It is derived using the equations for firm
value given in lemma 1a) and 1b).
Diagram 2: The relationship between legal effectiveness, closeness, type of contract and firm value.

The solid upward sloping line represents firm value when the VC selects the tough contract. From lemma 1a), this is increasing in legal effectiveness $q$. The horizontal dashed lines represent firm value if the VC selects the soft contract. For a given closeness parameter, these values are independent of the legal effectiveness parameter. Furthermore, increasing closeness pushes these lines upwards.

The optimal contract switches from the soft to the tough contract when the horizontal dashed line meets the upward sloping dashed line. For example, if $\theta = 0.5$, the locus of firm value is ABC, where the soft contract is optimal between A and B, and the tough contract is optimal between B and C.
The diagram demonstrates that firm value can be increased in two dimensions; either by increasing legal effectiveness (with closeness fixed) beyond the critical contract-switching level (such that the VC switches from the soft to tough contract). Alternatively, firm value can be increased by increasing cultural closeness for a given level of legal effectiveness.

3. Policy implications

Recall that we have developed our model with the following research questions in mind; does the venture capital sector require a strong legal system in order to flourish, or can it survive based upon implicit relationships such as empathy? How does the strength of the legal system affect the optimality of tough or weak contracts?

Firstly, consider the effect of the legal system on the performance of the venture capital sector. Our model emphasises that governance and empathetic cooperation may be substitutes. A strong legal system encourages strong contracting and governance, which, in turn, encourages better entrepreneurial performance due to his fear of punishment for failure. However, in our model, strong contracting also destroys empathy and cooperation between the entrepreneur and the VC.

On the other hand, a weak legal system discourages strong contracting. However, in our model, implicit factors, such as empathy, trust and cooperation substitute for governance. Therefore, we have addressed our first research question; venture capital can survive and flourish under a weak legal regime. Furthermore, graph 2 demonstrates that, if a society can encourage and develop empathy and cooperation, then venture performance can be improved (in diagram 2, this is represented by the upward movement of the horizontal lines).
Next, consider our second research question. Our model indeed demonstrates the relationship between the strength of the legal system and the optimality of strong or weak contracts. Diagram 1 shows that a strong contract is optimal if the legal system is strong and empathy is low, while a weak contract is optimal if the legal system is weak and empathy is high. We now suggest that our model allows an international comparison of venture capital/entrepreneur relationships and contracting. Diagram 1 provides a natural schema, based on sound game-theoretic techniques, for classifying different nations’ legal systems and cultural closeness in order to recommend optimal contracts. For instance, it has been identified in the literature that China may have low legal effectiveness. If it can also be shown that China has a very close culture, this society may fall into the lowest region in the diagram, in which case, soft venture capital contracts should be recommended. However, it some researchers argue that China contracting tends to be tough, which, we suggest, is value-destroying.

4. The Case of Chinese Venture Capital

A major objective of our analysis is to develop a model of the relationship between legal effectiveness and cultural closeness that can facilitate international comparisons of venture capital/entrepreneur relationships, contracting, and performance. In particular, we wish to be able to recommend on a country-by-country basis whether soft or tough contracting is optimal, given the country’s legal and governance mechanisms and cultural closeness.

In order to motivate this analysis, we now provide a brief review of venture capital in an emerging Asian economy; China. Asian culture appears to be substantially different from the West. Bruton and Ahlstrom (2003) interviewed 36 venture capitalists in 24 venture capital firms investing in China. They found that China's
institutional and cultural environment created a number of significant differences from the West.

Many researchers argue that, due to the extremely risky nature of venture capital investments, venture capital contracts need to be tough in China. It is further argued that the relationship between the venture capitalist and the entrepreneur has to be tackled carefully in China.

Fu (2003) argues that it is necessary to design a set of scientific compensation mechanisms, and also to bind the behavior of the venture capitalist, in order to reduce the deviation of the objectives between the entrepreneur and venture capitalist. In Meng’s (2003) game-theoretic model, the VC and the entrepreneur negotiate over the allocation of power in the contract. He demonstrates that, if the entrepreneur performs badly, the venture capitalist should own all of the control rights. Otherwise, most of control rights should be given to the entrepreneur. Meng suggests that the contract between the venture capitalist and entrepreneurship should be tough and well-defined.

Peng and Ren (2002) argue that Chinese venture capital contracts should be tightly structured to deal with the agency problems associated with risky start-up firms. Furthermore, to help the risky enterprise develop smoothly, they argue that it is necessary to adopt a series of institutional measures in the governance structure as well as the financial structure in the enterprise.

Tan Yi and Feng Zongxian (2000) argue that it is necessary to design a set of scientific compensation mechanisms and bind the behavior of the venture capitalist in order to reduce the deviation of the objectives between the investor and venture capitalist.

Ouyang’s (2004) case study of the Chinese venture capital investment process reveals that there is much violation of Chinese venture capital contracts.
Vega and Chong (2005) find similarities between China and the West. For instance, they find that VC decision-making in China follows a structured and organised process following the pattern set by venture capital in the West.

An analysis of the effect of the Chinese legal system and culture on optimal contracts is complicated by the fact that there are four distinct categories of VC firms in China; government VC firms, University VC firms, corporate VC firms and foreign VC firms. It appears that government VC firms and University VC firms do not generally select tough contracts. In contrast, foreign VC firms and corporate VC firms generally select tough contracts according to their own strict management procedures. Furthermore, since Chinese corporate governance appears to be weak (see Liu 2001), the cost of contract violation is very low in China.

We have argued that empathy and trust may substitute for governance. Bat Jargal (2005) provides evidence that this may be the case in China. He interviewed the CEOs and leading fund managers of Chinese VC firms. He found that, in making their investment decisions, these fund managers place great emphasis on references from third parties. These venture capitalists value the opinions of referees on entrepreneurial team ability, technology, and growth. Those entrepreneurs who were recommended by trusted referees are perceived to be less opportunistic, and are trusted not to engage in self-interested activities. Hence, interpersonal trust between third parties and investors has a positive impact on the investment decision.

In summary, the theoretical and empirical research suggests that Chinese venture capital contracts should be well-defined and tough. However, the existing game-theoretic approaches are based on narrow self-interest.

Some research suggests that trust and empathy play a large role in Chinese culture. Therefore, our psychological game-theoretic approach suggests that tough contracting
may be sub-optimal in China, and that performance and cooperation may be encouraged by softer contracting which encourages empathy and trust.

5. Our Survey of Venture Capital in China

We have developed a behavioral model of venture capital/entrepreneur contracting and performance that analyses the combined effects of empathy and effectiveness of the legal system on the optimality of strong or weak venture capital contracts. Further, we have discussed possible applications of the model to venture capital contracts around the world. In particular, we have suggested that China may be characterised by weak corporate governance and strong empathy, in which case our model suggests that weak VC contracts may be optimal.

In order to further understand the effects of corporate governance and culture in China, we surveyed Chinese venture capitalists. In this section, we present the main results.

The survey instrument was sent by email to 60 venture capital companies in China. Firstly, we selected the top 50 VC companies according to the Zero2Ipo Company (which is a leading professional integrated service provider for the Chinese venture capital and private equity industry). We recognised that these companies were all located in Beijing. Therefore, we extended the sample by choosing another 10 companies, which were located in other areas of China.

In an attempt to increase the response rate, we contacted some of the companies by telephone to solicit their participation. Finally, 19 venture capital companies provided sufficient data for inclusion in the analysis. The response rate was a little over 30 percent. We recognise that the responding sample is small. Nevertheless, our analysis
provides an initial pilot study, and the authors intend to develop and replicate the survey on a much wider scale.

The questionnaire was designed to elicit responses relevant to our theoretical analysis (the questionnaire is provided in detail in the appendix). We were interested in the combined effects of the legal system and Chinese culture on the venture capitalists’ view of the optimality of tough or soft contracts. Further, we asked the VCs about the effects of trust on their equity offers to the entrepreneur.

Our main results are as follows. Q1 reveals that nearly two-thirds of our respondents believed that the general business culture engendered reciprocal trust. According to Q2, nearly 80% of our respondents view the Chinese legal system as effective and strong. Q3 revealed that nearly 75% of our respondents believed that there was above average trust between VCs and Es in China.

Applying these responses to q1-3 (that there is high trust, but also an effective legal system) to our model, the optimality of soft or strong contracts is ambiguous. However, in q 7, over 50% of the respondents thought that tougher VC contracts were better than softer contracts, while over 25% thought that softer contracts were more desirable.

According to Q8, over 40% of the VCs exert high effort in screening the E. This might suggest lack of trust (which contradicts the answers to q1 and q3), and high control. This is consistent with the answer to q7.

Q9 considers the relationship between trust and the VCs equity proposal to the E. It reveals that an increased level of trust would induce nearly a third of respondents to
increase the equity offered to the E\textsuperscript{6}. However, nearly half of the respondents stated that the equity proposal would depend on other unspecified factors.

Q10 reveals that over half of the respondents stated that the perfection (or completeness) of the contract is not so important when the E is trusted. This contradicts the responses to Q7. In support of Q7, Q12 reveals that over half of the respondents half above average entrepreneurial-controlling terms in the contract.

In Q13, the sample is roughly evenly split between those who would soften the contract with trust of the entrepreneur, and those who would not. However, in Q14, over two-thirds of the respondents suggested that they would reduce monitoring activities if they trusted the E.

In summary, our limited sample demonstrates that the VCs believed that there is high trust in Chinese culture, and high trust between Chinese VCs and Es. However, these same VCs state that they engage in high screening and monitoring activities, perhaps suggesting a lack of trust. Further, the VCs believed that the Chinese legal system is effective, and that contracts should be tough. Increasing trust would induce the VCs to reduce monitoring, but not necessarily to soften the contract.

This small survey has provided the first steps in applying our model towards an understanding of the relationship between empathy/trust/fairness in VC/E relationship, the effectiveness of the legal system, and the optimality of tough or soft contracts. The authors intend to extend the survey of Chinese VCs, and also to extend to other developing and developed countries\textsuperscript{7}.

\textsuperscript{6} In this paper, we do not model the effect of fairness on the VCs equity proposal. However, in Fairchild (2006), he uses a game-theoretic approach to demonstrate that an increase in feelings of fairness results in a higher equity offer from the VC to the E, higher effort by both the VC and the E, and therefore improved performance and value of the firm.

\textsuperscript{7} Interestingly, a small survey of Es in the United Kingdom has revealed that they believe that fairness between VCs and Es, and soft contracts, induces improvements in venture performance (see Tucker 2004). Hence, this finding seems to be universal across developing and developed countries.
6. Conclusion

We have developed a psychological game-theoretic model in order to analyse the relationship between a society’s legal system and culture, the strength of venture capital contracts, and venture performance. In our model, control and empathetic cooperation are substitutes. Tough contracts are optimal when an economy’s governance mechanisms are well-developed, and/or cultural closeness is low. Soft contracts are optimal when the economy’s governance mechanisms are not well-developed, and/or cultural closeness is high.

We considered the policy implications of this model in relation to venture capital in developed and developing countries. In particular, we focused on China, where most researchers suggest VC contracts should be tough. We employed our model to argue that, due to weak governance mechanisms and high cultural closeness, these tough contracts may, in fact, be sub-optimal. China may benefit from softer VC contracts.

In this paper, we have provided one of the first applications of psychological game-theory to VC/E contracting. We have focussed on empathy between VC and E. Future research will extend this analysis to include other behavioural factors that might affect the relationship between VCs and Es, and the optimality of the contract when the legal system is weak or strong. We may consider factors such as overconfidence, regret, reciprocal spite and fairness, anger, loss aversion, framing, hindsight bias, hyperbolic discounting, anchoring. Since the list of such factors is potentially infinite, and may vary according to national characteristics, this research agenda will be challenging.
Appendix.

1. Solution of the game.

Firstly, consider the case where the VC has chosen penalty \( f = F \). The payoffs (1) and (2) become

\[
\Pi_m = \frac{PR}{2} - (1 - P)F - \beta e_m^2, \quad (A1)
\]

\[
\Pi_{vc} = \frac{PR}{2} - \beta e_{vc}^2. \quad (A2)
\]

Hence, we have a non-sympathy game. The players’ choice of sympathy levels becomes irrelevant.

We derive the players’ optimal effort levels by substituting for \( P \) as a function of the players’ effort levels, and solving \( \frac{\partial \Pi_m}{\partial e_m} = 0 \), and \( \frac{\partial \Pi_{vc}}{\partial e_{vc}} = 0 \). We obtain the players’ optimal effort levels, given that the VC has chosen the tough contract with penalty \( f = F \) at date 0:

\[
e_m^* = \gamma_m (\frac{R}{2\beta}) + F, \quad (A3)
\]

\[
e_{vc}^* = \gamma_m \frac{R}{4\beta}. \quad (A4)
\]

We substitute into \( P \) to obtain equilibrium success probability, given \( f = F \);
Next, we substitute into $V^* = P^* R$ to obtain the equilibrium value of the venture, given $f = F;$

$$V^* = \frac{(\gamma_m^2 + \gamma_{vc}^2)R^2}{4\beta} + \frac{\gamma_m^2 FR}{2\beta}. \quad (A6)$$

Then we substitute into (4) to obtain the VC’s payoff, given $f = F.$

$$\Pi_{vc} = \frac{\gamma_{vc}^2 R^2 + 2\gamma_m^2 R^2 + \gamma_m^2 FR}{16\beta} \quad (G10, G12, G14, G16)$$

where the terminal payoffs in the game tree are represented by (G..) (We do not present the game tree here. This is available on request from the authors).

Next consider the case where the VC has chosen the soft contract, with $f = 0.$ The payoffs become

$$\Pi_m = \frac{PR}{2} - (1 - P)F - \beta \epsilon_m^2 + \Lambda_j \theta_{vc}, \quad (A7)$$

$$\Pi_{vc} = \frac{PR}{2} - \beta \epsilon_{vc}^2 + \Lambda_j \theta_{vc}. \quad (A8)$$
Now move back to date 2 to consider the VC’s choice of sympathy level, given player 1’s choice of sympathy level. Following the choice of $f = 0$ by the VC, if the M chooses $\lambda_{vc} = 0$, then effective sympathy is $\Lambda_{vc} = \Lambda_{m} = 0$, regardless of VCs choice of sympathy level, $\lambda_{vc} \in \{0,1\}$. Therefore, we have the non-sympathy game. Since $f = 0$, the payoffs become

$$\Pi_m = \frac{\gamma_m^2 R^2}{16\beta} + \frac{\gamma_{vc}^2 R^2}{8\beta} \quad \text{(G5, G7)}$$

$$\Pi_{vc} = \frac{\gamma_{vc}^2 R^2}{16\beta} + \frac{\gamma_m^2 R^2}{8\beta} \quad \text{(G6, G8)}$$

Following the choice of $f = 0$ by the VC, if the M chooses $\lambda_{vc} = 1$, then if VC chooses $\lambda_{m} = 0$, effective sympathy becomes $\Lambda_{vc} = \Lambda_{m} = 0$, and again we have the non-sympathy game. Therefore (G3) = (G5) = (G7), and (G4) = (G6) = (G8).

Following the choice of $f = 0$ by the VC, if the M chooses $\lambda_{vc} = 1$, then if VC chooses $\lambda_{m} = 1$, effective sympathy becomes $\Lambda_{vc} = \Lambda_{m} = 1$. Note that this is the only case where effective sympathy affects date 3 effort levels and payoffs. The payoffs become

$$\Pi_m = (1 + \theta) \frac{PR}{2} - \beta e_m^2 - \theta \beta e_{vc}^2, \quad \text{(A9)}$$

$$\Pi_{vc} = (1 + \theta) \frac{PR}{2} - \beta e_{vc}^2 - \theta \beta e_m^2. \quad \text{(A10)}$$
Solving \( \frac{\partial \Pi_m}{\partial e_m} = 0 \), and \( \frac{\partial \Pi_{vc}}{\partial e_{vc}} = 0 \), we obtain

\[
e_m^* = \frac{(1 + \theta)\gamma_m R}{4\beta}, \quad (A11)
\]

\[
e_{vc}^* = \frac{(1 + \theta)\gamma_{vc} R}{4\beta}. \quad (A12)
\]

Therefore,

\[
V^* = P^* R = \frac{(1 + \theta)[\gamma_m^2 + \gamma_{vc}^2]R^2}{4\beta} \quad (A13)
\]

Therefore, the payoffs become

\[
\Pi_m = \frac{R^2[(1 + \theta)^2 \gamma_m^2 + (2(1 + \theta)^2 - \theta(1 + \theta)^2)\gamma_{vc}^2]}{16\beta} \quad (G1)
\]

\[
\Pi_m = \frac{R^2[(1 + \theta)^2 \gamma_{vc}^2 + (2(1 + \theta)^2 - \theta(1 + \theta)^2)\gamma_m^2]}{16\beta} \quad (G2)
\]

Therefore, given that the VC has chosen \( f = 0 \), and M has chosen \( \lambda_{vc} = 1 \), VC will choose \( \lambda_{vc} = 1 \), if \( (G2) > (G4) \), which is true for \( \theta > 0 \). Therefore, if VC has chosen
If \( f = 0 \), M knows that if he chooses \( m\lambda_{vc} = 1 \), VC will choose \( v\lambda_m = 1 \). Therefore, M will choose \( m\lambda_{vc} = 1 \), if \((G1) > (G3)\), which is true for \( \theta > 0 \).

Therefore, if VC has chosen \( f = 0 \), then it is the case that M chooses \( m\lambda_{vc} = 1 \), VC chooses \( v\lambda_m = 1 \), and the players then exert effort levels such that the payoffs are \((G1)\) and \((G2)\).

It remains to determine VC’s optimal choice of contract at date 0. The VC will choose \( f = 0 \), if \((G2) > (G10)\), which provides the condition in proposition 1.

2. Our questionnaire for the Chinese VCs.

1) Do you consider that there is a business culture of reciprocal trust around you?

<table>
<thead>
<tr>
<th>Valid Responses:</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>12</td>
<td>63.16%</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>36.84%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

2) Does the legislation and regulation in China effectively restrict people’s behavior?

<table>
<thead>
<tr>
<th>Yes</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td></td>
<td>78.95%</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>
3) How strong is the trust in the relationship between the VC and the Entrepreneur?

<table>
<thead>
<tr>
<th>Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>strong</td>
<td>8</td>
<td>42.10%</td>
</tr>
<tr>
<td>quite strong</td>
<td>6</td>
<td>31.58%</td>
</tr>
<tr>
<td>average</td>
<td>2</td>
<td>10.51%</td>
</tr>
<tr>
<td>quite weak</td>
<td>2</td>
<td>10.51%</td>
</tr>
<tr>
<td>weak</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

4) How do you select funded projects?

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>7</td>
<td>36.83%</td>
</tr>
<tr>
<td>Project team</td>
<td>6</td>
<td>31.58%</td>
</tr>
<tr>
<td>nature of ventures</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>accounting indicators</td>
<td>2</td>
<td>10.52%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

5) How do you get the information of the venture project?

<table>
<thead>
<tr>
<th>Information Source</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Referral from Government</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>Application</td>
<td>5</td>
<td>26.33%</td>
</tr>
<tr>
<td>Referral from bank</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>Referral from Pre-funded venture</td>
<td>2</td>
<td>10.52%</td>
</tr>
<tr>
<td>Referral from friends</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

6) How much effort do the VCs put into screening their investments at business plan stage?

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 3 months</td>
<td>7</td>
<td>36.83%</td>
</tr>
<tr>
<td>3-6 months</td>
<td>5</td>
<td>26.33%</td>
</tr>
<tr>
<td>6-12 months</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>12-18 months</td>
<td>3</td>
<td>15.79%</td>
</tr>
<tr>
<td>Above 24 months</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

7) How do you assess the toughness of financial contract?
<table>
<thead>
<tr>
<th>The tougher the better</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
<td>52.63%</td>
</tr>
<tr>
<td>Average</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>The tougher the worse</td>
<td>5</td>
<td>26.33%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

8) How much screening effort do you put into screening En’s behavior?

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>The more the better</td>
<td>8</td>
<td>42.10%</td>
</tr>
<tr>
<td>Average</td>
<td>5</td>
<td>26.32%</td>
</tr>
<tr>
<td>The less the better</td>
<td>6</td>
<td>31.58%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

9) If you trust the entrepreneur, you will offer much more equity stake?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>6</td>
<td>31.58%</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>Depends on other factors</td>
<td>9</td>
<td>47.37%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

10) If you trust the En, you will do not care so much about the perfection of contract?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>11</td>
<td>57.89%</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>42.11%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

11) Do you worry about the loss in value caused by the entrepreneur using his right?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>6</td>
<td>31.58%</td>
</tr>
<tr>
<td>No</td>
<td>13</td>
<td>68.42%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>
12) How many terms which constraint the entrepreneur’s behavior are there in your financial contract?

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Many</td>
<td>4</td>
<td>21.05%</td>
</tr>
<tr>
<td>Many</td>
<td>6</td>
<td>31.53%</td>
</tr>
<tr>
<td>Average</td>
<td>5</td>
<td>26.33%</td>
</tr>
<tr>
<td>Little</td>
<td>3</td>
<td>15.79%</td>
</tr>
<tr>
<td>Very little</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

13) If you trust the entrepreneur, would you soften the constraining terms when you make financial contract?

<table>
<thead>
<tr>
<th>Justification</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>9</td>
<td>47.37%</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>52.63%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

14) If you trust the entrepreneur, would you reduce the level of monitoring?

<table>
<thead>
<tr>
<th>Validity</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>13</td>
<td>68.42%</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>31.53%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

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