Examining Trust within the Team in IT Startup Companies – An Empirical Study in the People’s Republic of China

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Abstract

The People’s Republic of China has shown strong economic growth rates within the last years, which can in part be attributed to the increasing foundation of startup companies, especially in the IT sector. Due to a lack of familiarity with novel situations, it is difficult for entrepreneurial teams to operate successfully during the first years after starting out. Previous research suggests that high levels of trust within the team can mitigate these difficulties and positively influence the relational capital that in turn is beneficial for the success of startup companies. The present study analyzes influencing variables on the relational capital dimension trust within IT startup companies in China. The results show that the innovativeness of a business idea as well as the business growth potential have a positive impact on trust within the entrepreneurial team, especially if the team consists of Chinese – as opposed to non-Chinese – startup founders.

1. Introduction

In the past years, entrepreneurship has continued to be an important driver of economic growth worldwide and the founding rate of new companies has been increasing significantly. Furthermore, economists and management scholars have paid higher attention particularly to information technology (IT) entrepreneurship [1, 32]. However, the failure rate of new ventures is still about 40 percent in the first years and starting a new venture is considered to be a high-risk activity in general [28]. Peña states that only 54 percent of new businesses survive more than one year, and only 25 percent more than six years [26]. But who are the people in the startup companies who have to deal with these risks?

For a long time, researchers focused mainly on the individual entrepreneur in the venture. Currently, the research focus in entrepreneurship reflects a growing interest in entrepreneurial teams who are responsible for most of the startup activities today [21]. Cooper/Bruno found evidence that over 80 percent of startup companies which survive longer than two to three years were founded by entrepreneurial teams – defined as a group of two or more individuals who are responsible for the creation and management of new ventures [15]. Therefore, the present research examines different factors which influence the relationship between entrepreneurial team members with different national backgrounds.

The theoretical background of this study relies on the relationship between the entrepreneurial team members and their capability to found a successful new venture in the IT sector. The empirical and practical background considers the largest transition economy in the world – the People’s Republic of China [7, 12]. Startup companies evolved into one of the most important driving forces of China’s rapid development, whose economy has moved from central planning to market competition since late 1978. Despite the huge growth potential, the non-transparent and the hardly predictable market situation, management and entrepreneurship literature has as yet given little attention to those topics [33]. Significant differences between the environment, cultures, and social norms of Asian and Western cultures justify empirical research in China.

As mentioned above, the rising interest in research is evident in China-related entrepreneurial literature, such as for instance Yang/Li [33]. Between 1980 and 1989, only three papers were published in the leading academic journals such as Academy of Management Journal (AMJ), Academy of Management Review (AMR), Administrative Science Quarterly (ASQ), Entrepreneurship: Theory and Practice (ETP), Journal of Business Venturing (JBV), Journal of Management (JOM), or Journal of Small Business Management (JSBM), as opposed to 38 publications between 2000 and 2005 [33]. Batjargal/Liu explored – as one of the first – entrepreneurship in Chinese high-technology areas and the importance of networks, relationships, and resources as a new research field and gave limited overview of the market [2, 6, 8].
In Asian countries, the concept of *guanxi* (the quality of a relation in an entrepreneurial context) has already attracted many researchers [1, 5, 8, 33]. Accordingly, trust between startup founders works as a basis for good relations and is hence one of the most important criteria for entrepreneurial success [7]. Whereas there is extensive literature on trust in the field of organizational behavior, there is relatively little research in the area of IT entrepreneurship, especially in the Chinese context [1]. These reasons justify the choice of the research subject and the cultural context of this study.

This paper is structured as follows: The next section covers a review of relevant literature on entrepreneurial teams, on the development of startup companies in China, and discusses relational capital as a solution to minimize difficulties during the venture foundation. This points out a research gap of applying and empirically testing main influencing factors on trust as a dimension of relational capital. Based on these findings, we formulate hypotheses and outline theoretical justifications in detail. The methods-section describes the research design, samples, procedures, and measurements to test the derived hypotheses. Findings are subsequently illustrated and supported by statistical analyses. In the last section, the contributions to contemporary research will be highlighted, followed by the limitations and implications of the results.

2. Literature Review and Theoretical Foundation

2.1. Entrepreneurial teams as the heart of new ventures

Entrepreneurship is defined as “novelty and value creation in the economy” [20]. Due to the fact that new organizations have a higher risk of failing than established organizations, it is important to find the critical factors behind long-term success [26, 28]. In general, both individual entrepreneurs and entrepreneurial teams can start new ventures. Earlier research concerned with human capital has only considered individual entrepreneurs [18]. However, a number of current studies show that firms are more frequently founded by entrepreneurial teams rather than by individual entrepreneurs. Moreover, they have higher chances of survival and growth. Teams – as opposed to individuals – have the advantage of combining varying talents, using different resources, spreading risk and hence compensate weaknesses of individuals. According to recent business research, entrepreneurial teams work as the heart of new ventures and present lots of various advantages in comparison to individual entrepreneurs [15]. The entrepreneurial literature provides several definitions of the term “entrepreneurial team”, for example “two or more individuals who jointly establish a business in which they have an equity (financial) interest” [21]. SCHJOEDT/KRAUS stated that entrepreneurial teams have a “commitment to a venture’s future and success” and are determined to work with responsibility at the executional level in the startup phase of the firm [27]. Moreover, they need to find opportunities or possibilities to generate future goods and services. Consequently, the entrepreneurial team has a significant influence on future development, performance and subsequent success of a startup company [21].

But why are startup companies founded and managed by entrepreneurial teams more successful than companies started by individuals? According to SHEPHERD/DOUGLAS/SHANLEY, starting a new venture is a high-risk activity [28]. In general, startup companies need to find a way to minimize novelty risks shortly after starting the company. As one of the first scholars, STINCHCOMBE defined the term “liability of newness” and presented reasons and evidence for the high probability of new ventures to fail. Since the organizational structures in these organizations have just been created, they have to learn and establish new roles and routines under time pressure and lack of money [28]. In comparison to less novel companies, entrepreneurs gain a lot of experience through “learning by doing” and observing their competitors or customers [3].

Nevertheless, there is a lack of research, especially considering small and close teams, which emphasizes the importance of further research within an entrepreneurial team.

2.2. New ventures and entrepreneurial teams in China

Starting a new venture in an emerging economy is much more challenging and substantively different than in a western institutional environment [12]. As entrepreneurial research is still focused on North American and European contexts, relatively little is known about entrepreneurship in emerging markets, such as in China. To date, most research in China has been carried out within large multinational companies or large networking relationships. There exists huge and accumulative fragments in entrepreneurial research in China. In fact, current literature claims relationship structures in an entrepreneurial context as future research topic [7]. Additionally, there is a risk for startup companies within an unpredictable and volatile market, since they have uncertain property rights or
corporate governance and are highly dependent on a nascent financial market [12]. Given this lack of information, guidelines and solutions to successfully start a startup company are getting more important than in western countries [17]. Therefore, an entrepreneurial team has higher liabilities to minimize negatively influencing impacts [17]. The personal network of entrepreneurs can have an important influence on the success of the venture. The quality of interpersonal relationships – defined as guanxi – is an important success-related criterion for Chinese entrepreneurs [7]. It can be defined as the “Chinese version of social networks and networking (King 1991). Researchers defined guanxi as a network of extended family relationships (Kipnis 1997), […] particularistic relationships – built simultaneously for the sake of the relationship and instrumental purposes (Lin 2001), and special relationship due to the existence of particularistic ties (Tsui et al. 2000, Yeung and Tung 1996)” [8]. Moreover, ZHAO/ARAM suggested that “guanxi bonds two persons through the exchange of favors rather than through sentiment. The guanxi relationship does not have to involve friends. […] Although there are several bases for developing guanxi, an economic base is the most prevalent in business” [35]. This interdependent resource plays an important role in Chinese businesses and is used to obtain entrepreneurial opportunities, to establish necessary networking connections and enhance firm performance in general. There has been a central research focus on the impact of guanxi in China with significant effects on different outcome variables, such as AHLSTROM/BRUTON, BATJARGAL, BATJARGAL/LIU and YANG/Li [1, 7, 8, 33]. Especially entrepreneurs in small and private companies strongly focus on business connections which are typical of countries with insufficient legal and regulatory institutions [33]. Past research has shown that guanxi capital promotes interpersonal trust within the team and enhances firm performance. Against this background, foreign nationalities in the entrepreneurial team might get problems due to the effects of guanxi.

2.3. Social capital as a solution to minimize novelty in new ventures

Social capital within an entrepreneurial team has a strong impact on a firm’s performance and stability. Within the first years of a startup company it is necessary to minimize the consequences of novelty [10]. Building a high level of social capital is required for entrepreneurs to gain reputation, personal contacts, and useful information during the new venture creation process [22]. Social capital is defined as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by individual or social units” [25]. For research on entrepreneurial teams, relational capital, which constitutes the nature and quality of a relationship, is one of the most important dimensions of social capital. This relationship has been developed due to personal interactions and connections. In an entrepreneurial context, relational capital is mostly defined as trust [10].

The success of a new venture depends on the relational capital of the entrepreneurial team. As stated above, novelty and a certain degree of uncertainty in a new venture cannot be avoided. In fact their existence presents the greatest challenge for entrepreneurial teams. Combining the findings, a high level of relational capital within an entrepreneurial team may minimize the negative effect of upcoming novelty on entrepreneurial action [10].

2.4. Trust as a central element of relational capital

Trust is one of the most important forms of relational capital within an entrepreneurial team, but has not been in the focus of research in entrepreneurial context. Previous research has studied trust mainly in organizational behavior settings.

MAYER/DAVIS/SCHOORMAN define trust from an organizational point of view as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other party will perform a particular action important to the trustor, irrespective of the ability to monitor or control the party” [24]. On the other hand, the entrepreneurial definition of STAPLES/WEBSTER defines trust in an entrepreneurial context as the willingness of team members to let themselves be vulnerable based on the expectation that others will not take advantage of this vulnerability. “Trust is linked to several organizational behaviors, like organizational citizenship behaviors, a desire for future interactions, team performance and information sharing” [29]. Moreover, trust is linked to the willingness and amount of information shared, including opinions with different objectives, in the entrepreneurial team. Therefore, individuals make better personnel and strategic decisions, which could lead to improved performance [34].

Having high trust within a startup company is essential for high relational capital which in turn is an important criteria of new venture success [10]. Therefore, this study examines how trust is influenced by venture and entrepreneurial team characteristics.
3. Hypotheses

Diversity within entrepreneurial teams may influence their performance, and also enhance trust and loyalty within the team [9]. Therefore, the focus in this investigation is on team diversity which has different characteristics. Taking into consideration the Asian background and the lack of research, the nationality of the entrepreneurial team presents an interesting research area [14, 35]. Therefore the following questions arise: First, is it possible to build up high trust relationships if team members have different nationalities, e.g., Chinese and American founders in one team? Second, will homogeneous teams have similarities to build up more interpersonal trust? Third, how do Chinese individuals affect interpersonal trust within the team? The above argumentation can be summarized in the following hypothesis:

**Hypothesis 1.** The diversity of nationality within the new venture is negatively associated with the startup founder’s trust.

Startup companies in China are mostly founded by teams composed of Chinese members only. As we hypothesized, while trust within the team may be influenced by the diversity of nationality within the team, it is also interesting to observe if there are differences based on the nationality of each founder. Therefore the following Hypotheses are separately tested for two groups. In the first group, they are tested only for Chinese founders – the Chinese sample – and in the other, they are tested for non-Chinese founders, e.g. American founders – the non-Chinese sample.

As one of the main elements of a new startup company, innovativeness of the business idea represents an important criterion for the success of the company [12, 16]. It gives the startup company a solid background to become more successful than a copy of an old idea – a so-called copycat [31]. According to this, the quality of a business idea could improve trust within the team, and hence make for success of the startup company. Thus, will there be higher interpersonal trust if the startup company’s business idea is more innovative? The hypotheses are formulated as follows:

**Hypothesis 2a.** Based on the Chinese sample, the innovativeness of the new venture is positively associated with the startup founder’s trust.

**Hypothesis 2b.** Based on the non-Chinese sample, the innovativeness of the new venture is positively associated with the startup founder’s trust.

The invested capital in the new venture is one of the main criteria for startup companies to get the chance to grow and become successful [12]. Previous studies have demonstrated a positive relationship between the size of the firm at the time of its founding and survival time of startup companies. Furthermore, research has revealed that the firm’s size is dependent on the financial capital invested in the new venture [9, 16]. However, this begs the question of whether startup founders are influenced by the amount of financial capital invested in their company. Moreover, will the level of financial capital invested in the new venture also influence trust within the team? We state the following hypotheses:

**Hypothesis 3a.** Based on the Chinese sample, the financial capital invested in the new venture is positively associated with the startup founder’s trust.

**Hypothesis 3b.** Based on the non-Chinese sample, the financial capital invested in the new venture is positively associated with the startup founder’s trust.

The entrepreneurs’ personal motivation and the persuasion regarding the nascent venture are important influencing factors of trust in the entrepreneurial team. Using one’s own evaluation of the business potential concerning the future growth of the startup company may affect the motivation to work and push the startup companies’ performance. LIAO/WELSCH suggest that trust which is built up between parties enhances the willingness of entrepreneurs to engage in cooperative activity. Moreover they found empirical evidence that trust as a part of social capital positively influences the growth aspiration of entrepreneurs [22]. Startup founders who had developed a high degree of trust will therefore be more likely to combine knowledge and information, resulting in good estimations of their company’s business performance. Conversely, one should also consider if there are any impacts from the level of the business growth potential of the company based on a personal estimation [13, 26]? For example, does a founder of a startup company who sees more potential in the business idea and thus better chances for the future, report higher interpersonal trust in the founding team? Will there be higher trust if the startup company has higher business growth potential? We derive:

**Hypothesis 4a.** Based on the Chinese sample, the growth potential of the new venture is positively associated with the startup founder’s trust.

**Hypothesis 4b.** Based on the non-Chinese sample, the growth potential of the new venture is positively associated with the startup founder’s trust.
Hypothesis 4b. Based on the non-Chinese sample, the growth potential of the new venture is positively associated with the startup founder’s trust.

4. Research Methodology and Analysis

The survey was conducted in the People’s Republic of China, with a geographical focus on the metropolitan centers of Shanghai and Beijing. In total, 150 entrepreneurs participated in the survey. Moreover, we sampled only entrepreneurs from IT-oriented startups, such as internet or e-commerce startup companies.

All participants had the choice between an English or Chinese version of the questionnaire. A native Chinese speaker translated the introductions, explanations, and questionnaire items from English into simplified Chinese. The back-translation method was used for all translations in this study to verify its quality [11]. Founders and team members were treated equally and not according to their job positions, as they were defined by their actions in the entrepreneurial environment [19]. In order to generate a sufficient number of participants in this voluntary, anonymous, and unpaid survey, different ways were employed. Mainly, participants were approached by personal contacts, recommendations, or randomly by business-related social networks such as LinkedIn or a Chinese version such as Ushi.cn.

The participants’ ages ranged from 22 to 67 years old and about two thirds (66%) of the sample were Chinese entrepreneurs. Male participants were dominant in the survey (88%), with only 12 percent female. 88 percent of the participants had attended university, and 42 percent of these participants had a Master’s degree, PhD or an equivalent academic degree. Most of the startup companies (68%) were started by two to four founding members and at the last three years.

Validated constructs were used, measured, and rated on 7-point Likert scales in the questionnaire. In order to measure trust within the entrepreneurial team, the six-item trust measurement scale “trust within the team” was used [29]. Sample items include “Overall, I feel that I can trust my team members completely” and “I can rely on those I work with in this team”. The innovativeness of the business idea was measured with a 7-point Likert scale from 1 (not innovative at all) to 7 (very innovative). The amount of financial capital invested in the new venture was measured with a 7-point Likert scale from 1 (no investment) to 7 (more than US$ 50,000). Both scales were adopted from the scale developed by Dencker/Gruber/Shah [16].

Business growth potential as a clear development objective was adopted from Liao/Welsch, and measured using a 7-point Likert scale from 1 (not at all) to 7 (very much) [22].

The index of diversity is defined by the degree of concentration or diversity achieved when individuals are classified into groups. The entrepreneurial team diversity index defined by nationalities was measured by the relational demography formula (RD) of Tsui/Egan/O’Reilly [30].

\[
RD = \sqrt{\frac{1}{n} \sum (S_i - S) \cdot ^2}
\]

Using this formula, the diversity index is calculated by assigning a 1 to team members for a particular nationality group – Chinese participants – and a 0 for a member in the team with a different nationality. Both values are summed up, divided by the number of all entrepreneurial team members within the company and the square root is taken of the result. To calculate the diversity index, participants were requested to indicate demographic data about their entrepreneurial team. In this investigation, results ranged from 0.00 (homogeneous groups, only Chinese nationalities in the team) to 0.89 (heterogeneous groups).

5. Results

In order to test hypothesis 1 – whether trust of the startup founders is negatively associated with team diversity – we used a one-way analysis of variance (ANOVA). There was no significant effect of nationality – Chinese or non-Chinese – on trust within the entrepreneurial team (F(1, 148) = .173, p > .05). Nevertheless, the diversity index of Tsui/Egan/O’Reilly showed an average of .09 (SD = .24) and presented very homogeneously composed teams [30]. Three clusters demonstrated the diversity value, cluster one (n = 130, M = .00) had only homogeneous groups of the same nationality such as two Chinese founders, or three American founders, and so on. Cluster two had an average diversity index of 53% (n = 6, M = .53), and whose composition was characterized by at least two Chinese members and another variant nationality. The third cluster had the highest diversity index of 77% (n = 14, M = .77), with just one Chinese member and at least one different nationality in the entrepreneurial team. Therefore, Hypothesis 1a is not supported.

A bivariate correlation was used to test hypotheses 2 to 4 in order to estimate the outcome variable trust from a predictor variable in two different samples.
Hypothesis 2a and 2b predicted that startup founder’s trust is positively associated with innovativeness of the business idea. Using the Chinese sample, there was a significant positive relationship between innovativeness and trust, $r(97) = .25$, $p < .01$, indicating that as innovativeness increases, trust also increases, hence supporting Hypothesis 2a. For the non-Chinese sample, there was no significant result, $r(49) = .04$, $p > .05$, stating that there was no relationship between innovativeness and trust. Therefore Hypothesis 2b is not supported.

Hypothesis 3a predicted that startup founder’s trust is positively associated with the amount of financial capital invested in the new venture. Results turned out to be non-significant and hence the hypothesis is rejected, $r(97) = .02$, $p > .05$. Similar non-significant results were observed with the non-Chinese sample, $r(49) = .07$, $p > .05$, hence Hypothesis 3b is not supported.

Hypothesis 4a predicted that trust is positively associated with the business growth potential of the new venture. Accordingly, there was a significant positive relationship between the business growth potential and trust within the team, $r(97) = .23$, $p < .01$; which strongly supports Hypothesis 4a. Finally, the results using the non-Chinese sample of Hypothesis 4b turned out to be significant as well, $r(49) = .24$, $p < .05$. Hence, Hypothesis 4b is supported.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Significance</th>
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<tbody>
<tr>
<td>1</td>
<td>.678</td>
<td>Rejected</td>
<td>No significant effect of nationality – Chinese or non-Chinese – on trust within the team.</td>
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<tr>
<td>2a</td>
<td>.245**</td>
<td>Supported</td>
<td>The innovativeness of the business idea is positively associated with trust within the team for Chinese entrepreneurs.</td>
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<tr>
<td>2b</td>
<td>.043</td>
<td>Rejected</td>
<td>The innovativeness of the business idea is not associated with trust within the team for non-Chinese entrepreneurs.</td>
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<tr>
<td>3a</td>
<td>.022</td>
<td>Rejected</td>
<td>The amount of financial capital that is invested in the new venture is not associated to Chinese founder’s trust within the team.</td>
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<tr>
<td>3b</td>
<td>.073</td>
<td>Rejected</td>
<td>The amount of financial capital that is invested in the new venture is not associated to non-Chinese founder’s trust within the team.</td>
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<td>4a</td>
<td>.234**</td>
<td>Supported</td>
<td>The business growth potential of the new venture is positively associated with Chinese founder’s trust within the team.</td>
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<tr>
<td>4b</td>
<td>.235</td>
<td>Supported</td>
<td>The business growth potential of the new venture is positively associated with non-Chinese founder’s trust within the team.</td>
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Significance level: * $p < 0.05$; ** $p < 0.01$
6. Discussion of Theoretical and Practical Findings

The main objective of this study was to investigate antecedents of trust within startup teams in China. The results showed that trust within the team is associated with the level of innovativeness of the business idea for homogeneous Chinese entrepreneurial teams. Moreover, trust is related to the business growth potential valued by the entrepreneurial team members of all nationalities. Contrary to our assumptions, diversity and nationality of the entrepreneurial team showed no significant association with trust. Moreover, the innovativeness of the business idea for the non-Chinese sample and the financial capital invested showed no significant impact regarding trust in the team for both samples.

Although diversity within the company was not associated with trust within the team, it could be argued that the relational demography index indicated a very low diversity mean value within the entrepreneurial team resulting in homogeneous team compositions on average. Most of the cofounders and team members were of the same nationality as the founder himself/herself. Thus, participants in this investigation might have built an international experience by living or studying abroad. Therefore, cultural differences within the team could have been minimized due to this prior international experience. Even in a team of high diversity there might only be few cultural problems within the team. In comparison to homogeneous teams, particularly high diversity could even become an advantage, due to information advantages such as international knowledge and experience. One can thus assume that startup founders in China can work equally well with Chinese entrepreneurs as well as with international entrepreneurs. If entrepreneurial teams respect the local business conditions in China, such as for instance the concept of guanxi, they might have a higher success rate [33].

Further analysis of the variables showed interesting results comparing the Chinese to the non-Chinese sample. One could assume that Chinese founders should have an advantage in communicating and networking with other founders or investors in China. But one of the major problems in China is a weak enforcement of intellectual property rights protection [33]. As a result, these startup companies are more likely to be less innovative as compared to highly risky product innovations [33]. The non-Chinese founders on the other hand, might have advantages from the Western culture, such as superior technology, management or market know-how [5]. Moreover, there is evidence in literature that experience from Western countries has positive effects on firm survival [5].

Innovativeness of the business idea showed relation to trust of the entrepreneurial team only if they are Chinese entrepreneurs. Looking at the non-Chinese sample, there was no relationship between innovativeness and trust. Most of the Chinese founders were born and raised in China and started the new venture right after their graduation which was indicated by a lower mean age of Chinese entrepreneurs in our sample. Therefore, they might evaluate their business idea as more innovative, since they have less experience in determining an idea’s level of innovativeness. The relationship between innovativeness and duplications of business models in China offers another interesting insight. The amount of copycats is extremely high in China – there were about 1800 Groupon clones in February 2011 – and many startup founders only copy others’ business ideas [23, 33]. This leads to the assumption that Chinese founders could identify the development of the same business ideas as best-case scenarios. Due to the publicly tangible experience about success or failure of other startup companies with cloned business ideas, they would be more confident about success or failure of their own startup company [31]. According to this, trust within the team should be higher, because the impacts of the business ideas are more assessable. Another reason that supports this result comes from the fact, that the process of starting a company in China is much more complicated and the possibility of getting copied by others during the research and development process of the service or product is much higher than abroad [12]. Therefore, we can argue that if the business idea’s level of innovativeness is higher, trust has to be higher, to be sure that no sensitive information leaves the company.

As previously mentioned, entrepreneurs with a different nationality might have other entrepreneurial experiences. This might result in different behavior, as in being less susceptible with regard to their levels of trust. Hence, most of the startup founders separate trust within the team and the innovativeness of their business idea. This was indicated by both non-significant results and lower mean estimates of innovativeness of their business idea compared to Chinese founders. If these individuals make the decision to found a startup company with other co-founders in China, they need a high assurance that the collaboration will work and that they can trust each other. If this is not given, many of these people would not make the decision to found a startup company in China. Moreover, many non-Chinese founders focus on an international geographical target market with their startup company, in comparison to Chinese
startup founders. This way, the business idea does not have to be highly innovative due to a larger sales market volume, which can again be supported by a lower mean value of innovativeness for non-Chinese startup founders.

Unexpectedly, trust was not influenced by the amount of financial capital invested in the startup company, neither for Chinese nor for non-Chinese entrepreneurs. Intuitively, one could assume that trust increases with increasing financial capital. Most Chinese individuals in our sample started their company within a team, where they motivate each other, even if they only have little financial capital. Additionally, trust within the team was not dependent on the amount of invested capital for non-Chinese startup founders in China. Due to the reason that international founders might have already founded several startup companies, they might have high private fortunes to assure the startup’s development without external funding [12]. Furthermore, the amount of financial capital necessary for the foundation of an IT-startup company, e.g. an online internet platform, is much lower than for a biotechnology startup. Production costs, such as website development, are much lower in Asian countries than in most Western countries. Besides, cheap labor keeps required capital low and provides support for the independence of trust and invested capital.

Finally, business growth potential was related to trust of the entrepreneurial team for Chinese and non-Chinese entrepreneurs. In other words, the growth potential of the startup companies gives the startup company much more impetus to become successful. The belief that one’s firm will gain strong growth in the future is necessary to last in the strong competitive market of IT startup companies in China. By implication, high potential encourages the development of the companies. If every founder has a strong belief in his or her company’s future development, the trust to found a successful startup company rises. If several founders have high trust characteristics in the company, higher trust within the team would be a consequence. For non-Chinese startup founders, the presence of strong business growth potential results in high trust within the team and increases the chances of becoming successful in the long term. As previously mentioned, foreign startup founders might have founded several startup companies before and their new venture in China could also be a subsidiary which needs growth potential [12]. Instead of a high level of innovativeness, knowledge and intention to grow within the next years are more important for becoming more successful than local competitors.

How can these conclusions be summarized to improve startup companies’ performance in the practical world? Chinese startup founders face high level of competition in the domestic market and should therefore have highly innovative business ideas with strong growth potential to become successful in the future. Startup founders should spend time on the preparation, evaluation, and definition of the main business idea and the future development. Especially in the IT sector, with its short development cycles, this phase should obtain special attention. The results show that homogeneous startup companies founded by non-Chinese individuals can become successful even without a highly innovative business idea but high business growth potential for the future. A solution might be a subsidiary of others startups founded in their home country. These results extend previous results and findings of success factors of national and international entrepreneurial teams in China.

7. Limitations and Future Research

This investigation also contains a number of limitations.

First, the data used in this study stem solely from self-reports. Although this is a popular way of collecting individual level variables, our results may suffer from biases and problems of common method variance. However, our research is supported by a range of previous studies using self-assessments in entrepreneurial and relational issues [4, 19].

Second, the data was collected at one time period, neglecting potential changes over the time. This might have an influence on the self-reported trust within the team variable, because the reported trust levels could be influenced by personal circumstances at the time of the survey. Future research should gather data from different sources and at multiple dates to avoid common method effects and account for temporal variance.

A third limitation concerns the meaningfulness of the success of the startup company with a high level of relational capital. In this study, the assumption that a high level of relational capital is necessary to become successful in the long term, is supported by extensive literature research. To analyze and compare whether these coherences are of practical use in the economic system, other variables could be used to assess the success potential of startup companies. Useful and consistent factors of success include the death rate or the survival time of startup companies which may both be used in future investigations [16].
8. References


