How lead investors build trust in the specific context of a campaign: a case study of equity crowdfunding in China

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Abstract

Purpose

The purpose of this paper is to explore the role of trust in the unobservable decision-making process of lead investors and follow-on investors in the specific context of equity crowdfunding campaigns.

Design/methodology/approach

This work employs a case study approach. This research conducts a three-year inductive field study of Chinese equity crowdfunding - AngelCrunch. It gathered both campaign and platform-level data from the selected case covering a period of seven years from 2011 to 2018. The dataset used for this study includes the characteristics of 189 online campaigns, 25 face-to-face interviews with the platform managers, early-stage investors and entrepreneurs, first-hand observations, and quarterly reports on online campaigns supplemented with informal interviews with the author for the reports.

Findings

The findings from this study provide early insights onto the unobservable decision-making process of ECF investors. It demonstrates how lead investors build competence and relational trust on which they rely for making an early pledge. Lead investors initially work on selective signalling information and establish early competence trust in the founding entrepreneur to select ventures for due diligence. They then depend on physical interactions with the entrepreneur as a powerful tool of performing thorough due diligence for building competence and relational trust. In contrast, follow-on investors differ from lead investors in the process of building trust for decision-making. They consider the credibility of lead investors and their pledge as additional information useful to develop their confidence of making the final decisions. Furthermore, this work uncovers the role of ECF platforms in facilitating the process of building interpersonal trust for the decision-making, with challenges to maintain the notion of platforms in raising a small amount of capital from a large crowd.

Research limitations/implications

This study is constrained by the limited scale of qualitative elements available. The findings of the study have implications for platform managers, investors, and policy makers.

Originality/value

Building on entrepreneurial finance and trust theory, this work demonstrates how lead investors build competence and relational trust on which they rely to make an early pledge in the context of ECF. The perception of a lead investor and the commitment together with the selective and formative information by the entrepreneur/s are key in follow-on investors' decision-making. This study uncovers that crowdfunding enables additional and valuable information to be assessed by crowd investors to manage extreme risk and uncertainty occurred in early-stage investments. This work also demonstrates that virtual world has its limitations to build interpersonal trust for managing extreme risk.

Key words: entrepreneurial finance, equity crowdfunding, early-stage investors, competence and relational trust, China

Introduction

Crowdfunding is a global phenomenon and operates in almost every country in the world (Rau, 2017; Bernardino and Santos, 2016). It has experienced demonstrably rapid growth in the number of platforms and amounts of capital raised globally, since emerging in 2011 (Bruton et al., 2015). The development of equity crowdfunding (ECF) platforms offers an important source of finance for early-stage innovative ventures (Grilli et al., 2018; Lin and Viswanathan, 2013). This innovative approach entails an attempt to raise a small amount of capital from a "crowd" in exchange for business shares of a firm through an online platform (Belleflamme et al. 2014; Ahlers et al. 2015). The financial innovation has created new channels for prospective investors to invest in new and early-stage ventures and in a simplified way (Harrison, 2013). It also lowers the cost of entrepreneurial finance (Massolutions, 2012; Harrison, 2013; Baldock and Mason, 2015). Prior studies have acknowledged a mix of professional and amateur investors active on ECF platform (Vismara, 2018; Astebro et al. 2017). Literature on ECF suggests that crowdfunding investors are inadequately equipped to overcome problems associated with information asymmetry and perceived uncertainties. Amateur investors typically lack the experience and capability to perform extensive due diligence (Ahlers et al. 2015; Agrawal et al. 2015). Bernstein et al. (2017) found that existing lead investors seem to have little influence on follow-on investors' screen decisions, whilst other studies suggested that follow-on investors herd after professional investors (Astebro et al. 2017). Such inconsistent findings, based mainly on evidence recorded in a platform, suggest a need to investigate the unobservable decision-making processes of ECF investors and gather in-depth evidence from multiple sources.

Literature on the increasing popularity of ECF has primarily examined the campaign-level determinants and based entirely on Western countries like the UK, USA, Australia, and some European countries (Ahlers et al. 2015; Bernstein et al. 2017; Block et al., 2018; Vismara, 2016; Vismara, 2018;). Consequently, a wide range of determinants have been identified: expertise and experience possessed by founding entrepreneurs (Ahlers et al., 2015), their social networks (Vismara, 2016), equity retention (Vismara, 2016), updates (Block et al., 2018), and behaviours of professional investors (Vismara, 2018; Bernstein at al., 2017). These studies have employed a signalling theory to examine what signals from the entrepreneurs and venture determine the likelihood of online campaign success (Ahlers et al., 2015), with the exception of Vismara (2018) and Astebro et al. (2017). The literature are currently dominated by quantitative studies. To the best of our knowledge, the only exception is that Brown et al., (2019) have employed a qualitative approach, focusing on the role of both personal and business networks in the equity crowdfunding process in the UK. Traditionally, early-stage investors (i.e. venture capitalists (VCs) and business angels (BAs)) rely on both competence and relational trust built through executing due diligence to arrive at their investment decisions (Cumming et al., 2015; Carpenter and Peterson, 2002; Hsu, 2004; Polzin et al., 2018). Competence trust, in this study, refers to an assessment of whether an entrepreneurial team is capable of the business success indicated by performance metrics (Butler, 1991; Butler and Cantrell, 1984; Mayer et al., 1995). Relational trust, in this work, refers to the feeling of early-stage investors that an entrepreneurial team wants to do well for themselves and investors (Mayer et al., 1995), and the establishment of effective relationships between investors and entrepreneurs (Uzzi, 1997 and 1999). The investment process, through which investors interact with the entrepreneurs, helps build both competence and relational trust for investors' decision-making (Hain et al., 2016). Given the importance of interpersonal trust in early-stage investments (Bammens and Collewaert, 2014), this work attempts to explore questions: how lead investors build interpersonal trust for making an early pledge in the context of a ECF campaign, and how the perceptions and attributes of lead investors play a role in the decision-making process of follow-on investors.

Approximately eight years after the establishment of ECF platforms, it is now appropriate to address important practical and theoretical questions above (Griffin 2013; Cholakova and Clarysee, 2015; McKenny et al., 2017). The development of ECF platforms improves operational models and practices to enhance online campaign success. Improved operational models help overcome ECF-based problems: trust building, ownership complexity, supporting and monitoring the investee ventures. Such models also help follow-on investors learn essential skills of evaluating the venture quality and funding potential. An investor-led model, therefore, is utilised by ECF platforms like AngelList -US, AngelCrunch - China, and SyndicateRoom - UK. This operational model first encourages lead investors to make an early pledge that is a sufficient amount to the capital required before raising funds from follow-on investors. By so doing, it expects that follow-on investors cherish the commitments and expertise of the lead investors. Knowing how lead investors make a pledge is important to understand the investment behaviour and process.

This study examines AngelCrunch operated in China that represents the main country for CF in the world, indicated by the number of platforms and the amount of capital raised therein (Rau, 2107). Studying ECF in countries like China would add to the increasing popularity of the emerging ECF literature since so far much attention has been given to developed countries like the UK, USA, Australia, and some European countries (Vismara, 2016; Vismara, 2018; Ahlers et al., 2015; Bernstein et al., 2017; Block et al., 2017). Moreover, prior studies have yet to use trust theory to examine the decision-making process in the specific context of a campaign. China, where trust based on personal network ties remains useful and important in governing economic exchanges (Burt and Batjargal, 2019), is a fascinating context to study the trust role in the process.

This study conducted a three-year inductive field study, and gathered both campaign and platform-level data from multiple sources. This research started with quarterly reports on online campaigns by the studied platform supplemented with informal interviews with the authors, followed by gathering campaign-level data, focusing on the characteristics of 189 campaigns including the human capital of entrepreneurs, start-up ideas, and the characteristics of lead investors. It also successfully conducted 25 face-to-face interviews with the platform managers, early-stage investors and entrepreneurs, covering a period of seven years from the platform's establishment in 2011 to January 2018. Simultaneously, first-hand observations on offline speed-dating matching entrepreneurs with early-stage investors and subsequent meetings between lead investors and entrepreneurs were conducted.

As well as being one of the first studies on ECF in China, this study contributes to entrepreneurial finance and emerging crowdfunding literature in several ways. First, it provides early insights onto the unobservable decision-making process of ECF investors. Building on entrepreneurial finance and trust theory, this work demonstrates how lead investors build competence and relational trust on which they rely for making an early pledge, and provides insights into the behaviours of follow-on investors in the decision-making process. This work also uncovers the role of ECF platforms in facilitating the process of building interpersonal trust for the decision-making, with challenges to maintain the notion of platforms in raising a small amount of capital from a large crowd. Finally, literature on ECF is profoundly dominated by quantitative studies and based on the data recorded in a platform; this work therefore makes a methodological contribution by using in-depth empirical evidence from multiple sources to examine the trust role and processual elements.

Contextual Literature

Equity Crowdfunding

Literature on ECF has examined the determinants of campaign success and outcomes, providing some understanding of the relationships between factors and campaign success. Based on a sample of 104 projects from October 2006 to October 2011 obtained from the Australian Small Scale Offerings Board (ASSOB), Ahlers et al. (2015) suggested the probability of fundraising success being associated with risk factors, declared exit intentions, and the top management team (e.g., size or level of education). A recent study based on a sample of 271 projects listed on UK platforms Crowdcube and Seedrs in the period 2011-2014 found that both equity retention and entrepreneurs having a large social network enhanced the probability of campaign success (Vismara, 2016). Another determinant of the success of ECF campaigns is information cascades among individual investors that play an essential role in attracting follow-on investors and triggering social contagion (Vismara, 2018), suggesting both the commitment of entrepreneurs of a project and the reputation and opinion of existing visible investors determining the success of ECF campaigns.

A few of studies have then examined the campaign process. A research by Block et al. (2018), based on 71 funding campaigns on two German ECF portals, suggested that posting an update has a significant positive effect on the number of investments made by the crowd and the investment amount collected by the start-ups. Brown et al. (2019) have found that, based on in-depth empirical data from entrepreneurs of funded start-ups, ECF as a process linked to networking is a “relational” form of entrepreneurial finance. Although these works have provided some understanding of the dynamic processes, a question raised is whether there is a role by the platforms in the decision-making process (McKenny et al., 2017).

ECF’s early evolution has seen that investor-led operation model has evolved to signal additional information about lead investors to follow-on investors in the belief that follow-on investors cherish the commitment and expertise of lead investors. Lead investors differ from follow-on investors in several ways. First, lead investors are likely to be experienced angel investors and VCs, whilst follow-on investors are likely amateur ones lacking the expertise and skills required to assess the project’s quality and funding potential (Vismara, 2018). Second, lead investors make a pledge before follow-on investors do so. Third, lead investors need to provide a sufficient amount of capital; whist follow-on investors are entitled to provide a small amount. Finally, lead investors are typically responsible for monitoring the investee venture at the post-investment.

The pledging and reputations of a lead investor may encourage follow-on investors to interpret the selective information displayed in the campaign documents more positively, building up competence trust (Fydrych et al., 2014; Agrawal et al., 2013; Hemingway, 2013; Vass, 2013; Burtch et al., 2013; Greiner and Wang, 2010). Lead investors who come to an ECF platform usually have links to other investors (e.g. Seedrs links to Passion Capital seed VC and Seedcamp accelerator in the UK; Crowdcube's link with HALO angel network in Ireland). Using a randomized field experiment, Bernstein et al. (2017) found that the average investor responds strongly to information about the founding team, but hardly responded to existing lead investors in their screening of decisions. In contrast, Drover et al. (2017), focusing on VCs' screening decisions, suggested that the attributes of angels and crowds produce highly influential effects. The inconsistent empirical findings suggest a need to investigate the decision-making process of investors and trust-related factors for campaign success within an ECF platform (Brown et al., 2019).

Trust theory and early-stage investments

It has been widely acknowledged that trust is crucial in the context of early-stage equity financing (Bammens and Collewaert, 2014; Hain et al., 2016). Scholars studying economic activities associated with information asymmetries and perceived uncertainty find trust to be particularly useful in explaining investors' behaviours and in shaping financial exchanges (McEvily et al., 2003; Williamson, 1993). Trust is a primary means of addressing information asymmetries that exist between investors and entrepreneurs relating to the growth potential of a business (Carpenter and Peterson, 2002; Hsu, 2004). More importantly, it is particularly crucial to cope with perceived uncertainties associated with: (i) unobservable demands; (ii) unpredictable markets; and (iii) unknown cooperative manner (Uzzi, 1997, 1999; Bammen and Colliwaert, 2014). Trusting entrepreneurs' capabilities to respond to changes in the market therefore becomes key to overcoming a lack of insightful and observable information needed to address perceived risk and uncertainty (Shane and Cable, 2002). Early-stage investors also consider entrepreneurs' cooperation – such as in agreeing to take management advice from lead investors and their non-executive director appointments - when making their decisions (Uzzi, 1997, 1999; Mason and Harrison, 2004; Baldock et al., 2015). Therefore, the likelihood of providing equity finance to early-stage ventures is enhanced when an investor trusts the entrepreneur(s). For projects that have passed through due diligence, successfully obtaining risk capital from early-stage investors depends heavily on entrepreneurs' efforts to demonstrate their trustworthiness (Mason and Harrison, 2015). Literature on ECF has assumed that early-stage investors rely on selective information about entrepreneurs and the venture quality, and the wisdom of a crowd to make their decisions. Missing from the literature is whether and how lead investors who make an early pledge build trust in entrepreneurs, which may then influence follow-on investors' decision-making.

Trust refers to a psychological state based primarily on a confident expectation and belief that another party will act in a certain manner, and the trusting party is willing to expose itself to risk arising from the actions of the trusted party (Mayer et al., 1995; Paul and McDaniel, 2004). Two types of interpersonal trust, namely competence trust and relational trust, are particularly important in the context of early-stage investments. Competence trust requires an assessment of whether the other party is capable of doing what it says it will do (Butler, 1991; Butler and Cantrell, 1984; Mayer et al., 1995). Early-stage investors are usually experienced and knowledgeable of products/services and the market(s) in which they are interested (Xiao, 2011; Xiao and North, 2012). The expertise and skills possessed by such investors enable them to a certain extent evaluate both the potential growth of a market and the demand for the product/services offered by a firm (Mason, 2009). With an emphasis on pre start-ups and start-ups, angel investors attach more importance to the ability of an entrepreneur and/or entrepreneurial team members to operate and grow the business (Mason and Harrison, 2000). Relational trust refers to the feeling or belief of the trusting party that the trusted party wants to succeed in a cooperative manner (Mayer et al., 1995). Early-stage investors need to feel that entrepreneurs will act as anticipated or behave cooperatively regardless of an investor's ability to monitor and control the investee business. Relational trust enables both early-stage investors and entrepreneurs to move towards a more symmetric information base, thereby reducing the perceived uncertainty of investment (Hain et al., 2016; Mishra and Zachary, 2014). Conversely, entrepreneurs may need to feel that investors are able to provide smart hands-on business assistance required when needed and/or anticipated. Face-to-face contacts through the investment process is a typical means of developing the level of competence and relational trust required, influencing investment decisions and determining the possibility of obtaining equity finance (Xiao and North, 2012; Baldock and Mason, 2015; Mueller et al., 2012).

Operating in the virtual world might render face-to-face meetings, a typical means of developing both competence and relational trust in traditional equity finance, no longer realistic (Duarte et al., 2012; Mollick, 2013). Instead, such interactions are replaced by: (i) face-to-face online visual contacts; and (ii) selective information sending to the crowd (Ahlers et al., 2013; Ward and Ramachandra, 2010). It seems that, based primarily on observable information about the entrepreneurs and business being limited, EFC investors have less means of assessing the determination, interpersonal dynamics, and trustworthiness of a founding entrepreneurial team. Moreover, online campaign periods are short, typically between 30 and 60 days (Massolutions, 2012; Cumming and Zhang, 2016).

Having discussed the importance of interpersonal trust in early-stage investments (Bammens and Collewaert, 2014), this study attempts to address the following questions:

(1) How do lead investors build interpersonal trust in the investment process for making an early pledge in the specific context of a campaign?
(2) How do follow-on investors differ from lead investors in terms of the trust role in the decision-making process?

The case of AngelCrunch

This study focuses on AngelCrunch that was one of the first three ECF platforms established in 2011 in China. It is the fastest-growing ECF platform in China from its inception in 2011 through rapid growth to slow down since late 2016, just like other Chinese major ECF platforms, in terms of numbers of projects and registered investors. By January 2017, on this platform 4,000 qualified investors meeting the platform's criteria were registered. The full eligibility criteria include CNY 500,000 of annual total income, or CNY 1 million of savings, or CNY 2 million of market value of investment, or CNY 10 million of market value of estate properties; and professional/work experience due to which they are well aware of extreme risk undertaken. The qualified investors are institutional VCs, business angels, experienced entrepreneurs, and wealthy individuals with professional qualifications and relevant work experience. AngelCrunch had raised CNY 1 trillion for 230 new and early-stage venture investment projects (see Table 1) by August 2015, representing two-thirds of the CNY 1.54 trillion for 333 projects raised by ECF platforms in China as a whole over the same period. However, like all of its competitors in China, it has subsequently experienced a slowdown in terms of the amounts of capital raised and the number of projects funded since early 2016. Additionally, the platform's staff decreased from 97 in 2015 to 43 in early 2017.

Table 1 about here

Research design

Data collection: This study explores how lead investors build competence and relational trust for the decision-making within an ECF platform. ECF platforms, acting as “orchestrators”, bring investors together with entrepreneurs (Brown at al., 2019). Therefore, a case study approach has been chosen as the primary method of data collection. Figure 1 shows the data used for this study, which were collected from four main sources. First, it started with quarterly reports on AngelCrunch by Tech2IPO and annual reports on the overall development of China’s ECF platforms, supplemented with four informal interviews with the authors of those reports. Tech2IPO is a social media platform run by AngelCrunch, and its quarterly reports record the successful campaign characteristics and fundraising activities of the major ECF platforms, document events organised by platforms, and provide updates on the financial innovations. The four informal interviews with the authors of those reports covered unexpected practices found, askingn questions like why physical meetings between lead investors and entrepreneurs were organised, and why on average a considerable number of physical meetings actually occurred before a pledge is made.

Figure 1 about here

Second, campaign-level evidence on the shared characteristics of successful campaigns was hand-collected through the platform’s website and cross-referenced by evidence from investee firms’ websites. It is worth noting that campaign-level evidence was only available to the platform’s analysts and accredited investors. A research assistant supervised by the author successfully gathered 189 successful campaigns run from 2013 to late 2016. During this period, the investor-led model was formally operated on the platform. Given the focus of this study on exploring how lead investors build trust leading to an early pledge, the common characteristics of successful campaigns are valuable to know. It also gathered detailed evidence about entrepreneurs’ human capital (i.e. education, work experience, specific skills) and their business activities through each firm’s website in the same way that early-stage investors would likely do so. Coding of data collected was guided by literature on entrepreneurial finance and ECF. Such data included: education, subject disciplines, work experience of founding entrepreneurs, venture’s business activity and development stage, information about the lead investor if published, ratio of capital actually raised versus capital initially asked for, number of early-stage investors investing in a project, time frame, background of existing investors, and physical interactions between entrepreneurs and lead investors.

Third, in-depth information drawn from 25 face-to-face interviews with the platform management staff, lead investors and follow-on investors, and founding entrepreneurs was gathered, covering the period from the platform's establishment in 2011 until January 2018. Amongst the 25 interviews conducted during a three-year period from 2015 to 2018, 16 interviews were with senior platform managers, seven interviews were with investors including five with lead and two with follow-on investors, and two interviews were with entrepreneurs of the funded start-ups (see Figure 1). Two platform managers were interviewed multiple times, so the number of interviews was greater than the number of interviewees. Amongst 16 interviews with platform managers, nine interviews were with platform project managers who worked with lead investors and entrepreneurs for the selected projects closely. For instance, those managers actively approached lead investors for briefing a selected project, coached the entrepreneurs for pitch, and arranged meetings for negotiating the deal. In-depth information they provided focused on the behaviours of lead investors in the decision-making processes, relating to trust building that lead investors relied on for making an early pledge. Three lists with open-ended questions were used to guide the interviews respectively, aimed at gathering insights into building competence and relational trust. The typical length of each interview was one hour. Interviews were digitally recorded, and transcribed, with findings double-checked (Miles and Huberman, 1994). During the interviews with the platform managers, it covered issues such as why ECF in practice kept on changing over time, and how those changes influenced each investment processes and campaign success. For instance, the author asked questions like "tell me about a project that you as a project manager were fully involved in", and encouraged them to share their experience of working with lead investors and entrepreneurs in the pledge decision-making processes. For lead investors, the author asked questions like "tell me the project that you as the lead investor invested in (did not invested in)" and "how did meeting the entrepreneurs help to make a pledge". Interviews with entrepreneurs focused on the role of the interactions with the lead investors in making a pledge.

Finally, first-hand observations of lead investors and entrepreneurs in relation to an ECF campaign were collected. During the author's visits in 2016, 2017 and 2018, the author attended offline speed-dating events and due diligence meetings about subsequent considerations between lead investors and entrepreneurs organised by the platform managers. The author spent many hours at AngelCrunch's office, and observed the communications between platform project managers and entrepreneurs of the selected campaigns where platform project managers coached entrepreneurs on the business plan and pitch. The observations allow the author to detect questions asked by lead investors and why such questions being asked in relation to the decision-making. These participant observations provides data on the role of "orchestrator" in helping build type of trust between lead investors and entrepreneurs.

Data analysis: this work started the data analysis on the quarterly reports supplemented with in-depth empirical evidence from the initial informal interviews with the authors. The author focused on the evolution of the platform's operational model as well as the organised historical online and offline events over time (Miles et al., 2013). It then moved on to review the campaign-level data, and close attention was drawn to what information published online drove lead investors to make a pledge and what information available to follow-on investors influenced their decisions. This research used literature on the determinants of ECF and evaluation criteria by angel investors as a theoretic basis to analyse the data. It aimed to explore what kind of published information that ECF investors relied on to build interpersonal trust with entrepreneurs for making a pledge.

At the same time, this study analysed in-depth empirical evidence from the interviews and first-hand observations. It began data analysis by iteratively coding all the interview transcripts and notes from observations, using literature on trust building and the decision processes as a theoretic basis. The author took notes when reading the transcripts and original notes from the observations, linking to the findings based on archival data and the campaign data. The coding often made the use of labels that were directly from the informant interviewees (e.g. 'physical meetings asked by lead investors', 'invested in the entrepreneur/s rather than the venture', 'job change costs', and 'exploring the personality of entrepreneurs). The author sorted the comments into the emerging topical categories, and associated these categories with initial codes that addressed the main topic of interest in this study: how lead investors build interpersonal trust in the entrepreneur for making a pledge over the process within an ECF platform. The analysis involved an iterative approach of moving back and forth amongst data.

As common themes began to develop, such as interpersonal trust in the entrepreneurs and business for making a pledge, the author used these themes to link any categories that were developed. This step enabled us to refine the coding scheme into more precise sub-themes. The author began to notice some codes related to concepts from prior literature, such as competence and relational trust as well as processual elements. The concepts emerged from the coding process helped to link the raw data to the description of the findings. Analysing the data led this work to see the approach to the emerging investment process model for lead investors, differing from that for follow-on investors. Analysing the data also enabled this study to see how lead and follow-on investors were incorporated into a campaign.

Findings

Operational model evolution

In order to understand investors building trust in the specific context of a campaign, this study first presents how the investor-led model operates. The operational model employed by AngelCrunch was evolved over time, with an early shift of the focus from bringing investors together with entrepreneurs to facilitating the campaign success and outcomes. It was not until 2013 that the investor-led model was fully developed and operated in the platform, and this led to rapid growth for a period of three years from 2013 to late 2016, reflected by the amount of investment raised, the number of investors registered, and the number of projects registered.

As Figure 2 shows, the model comprises five steps. First, entrepreneurs who attempt to raise ECF register their firms on the platform's website. By August 2015, a total of 16,090 projects had been registered seeking to raise risk capital through the platform. Second, project managers from the platform initially select firms to be listed on the website to attract a lead investor's pledge, following the selection criteria established by the platform. The selection of start-ups for a pledge is mainly based on: (i) industrial sectors like internet services and software services; and (ii) human capital possessed by the founding team members. As stated by the senior manager of AngelCrunch: *"investors are encouraged by the success of companies like Uber, Airbnb, and others, and particularly interested in a high-tech version of an old-fashioned industry*." Table 2 shows the successful crowdfunding campaigns, broken down by the industry. Among the firms examined, 98% were engaged in the digitalising of traditional industry (i.e., leisure, education, food, law, health and care, automotive services, and photography).

Figure 2 about here

A total of 4,928 ECF campaigns, representing 31% of applications, were posted to attract lead investors. '*Lead investors'* refer to those with investment expertise pledging at least 30% of the capital required for progression to platform fundraising to follow-on investors. Campaign-level data revealed that lead investors provided, on average, CNY 190,000 in investment capital. Lead investors were primarily sourced in three ways. First, the platform project managers approached experienced potential investors with preferred business activities (e.g. industry activity, business development stage, location), based on their online platform profile. Second, entrepreneurs and investors communicated initially through workshops and speed-dating events organised by the platform. Finally, lead investors sought actively for firms pre-listed on the platform to invest. Firms that received a lead investor's pledge of no less than 30% of the required capital progressed to raise the remaining funds from the follow-on investors over a promotional period of one calendar month. 'Follow-on *investors*' refer to individuals who are more likely amateur or less experienced investors, providing a relatively small amount of risk capital to young firms, and unlikely getting involved in monitoring or assisting the venture directly. Finally, the platform transferred the full amount of ECF to firms that obtained the required capital. Lead investors were then responsible for establishing an '*investment firm'* and monitoring the venture once the campaign has raised capital successfully.

Table 2 about here

Pledging of lead investors and competence and relational trust

The campaign-level data showed that lead investors were a mix of professional investors (e.g. venture capitalists and experienced angel investors, (Vismara, 2018)) and active businessman (e.g. experienced entrepreneurs and established companies). More specifically, amongst 103 funded ventures with published lead investor information online, 89 lead investors were VCs, nine lead investors were experienced angel investors, and five lead investors were established companies. These professional lead investors not only had resources and expertise to perform extensive due diligence for making an early pledge but also took more responsibilities at post-investment stage (e.g. monitoring and providing business assistance to the investee venture). Lead investors played a strong role in the decision-making processes, placing the importance of building trust in entrepreneurs.

Selection process. Information that primarily signals the experience, expertise, and commitment of the founding entrepreneur/s and an underlying idea for a new business plays a crucial role in capturing an investor's attentions (Bernstein et al., 2017). Our data showed that ventures selectively displayed detailed information on the level of human capital possessed by founding entrepreneur/s to build initial competence trust. Information containing high costs of changing a job or the reputational cost of failure within the professional network would sway both lead and follow-on investors. For instance, information like, the reputation of the universities where the founders undertook their academic degree(s) (e.g., 94% of founders obtained a first degree), well-known organisations where the founders have worked at, and the specific work experience and expertise of the founders were commonly displayed online. Overall, 83 firms (44%) named and displayed the top tier universities where the founding entrepreneurs had obtained their degree(s). What constituted a "top-tier university" is like Beijing, Qing Hua and Fu Dan in China, and Columbia and Warwick overseas. In addition, 152 firms (81% of successful campaigns examined) provided detailed information on their founders' work experience, with 29% of founders having had project management experience at a well-known organisation, 27% possessing entrepreneurial skills and management experience, 22% with experience of R&D and developing new products, 15% with marketing experience, and 6% with financial management experience. A significant proportion of successful campaigns (83%) had been created by an entrepreneurial team, typically ranging from two to five founders (just 4% had more than five founders).

Information on entrepreneur and the venture displayed online was important for lead investors to start-up for due diligence. As stated by one lead investor who has run software companies since the 1990s: *"it was published information on the founding team that caught my eye in the early stage of the selection process."* A similar view was echoed by a platform manager: *"The background of founding entrepreneurs is much more appealing to investors for passing through due diligence when a pre-start-up or start-up is being concerned. Figures about financial performance of a firm have become more important today than in the past since investors are now more interested in businesses with generated sales."* It is essential for projects to provide information about the quality of an entrepreneurial team, enabling lead investors to feel that the founding team not only aligns with their motives but that they are also capable of growing the firm quickly.

Figure 3 about here

Trust building and pledge: Figure 3 depicts that competence and relational trust building are relied upon by lead investors to make a pledge, and that competence trust and the behaviour of other investors are relied on by follow-on investors to make an offer. Prior research has acknowledged that online information has its limitations, and is often biased (Agrawal et al., 2016). Recent studies have also found that updates posted during a campaign influence crowd participants and increase the chances of raising crowdfunds (Block et al., 2018). Given that lead investors pledge sufficient amounts of capital and work with the investee venture closely at the post-investment stage, performing extensive due diligence to build trust became necessary. Table 3 illustrates that lead investors want to test about whether entrepreneurs 1) have the most essential skills required growing the venture fast and 2) can be trusted in terms of cooperative manners and interpersonal dynamics for a pledge.

Our data showed that 57% of the funded projects had involved physical meetings between potential lead investors and entrepreneurs. In 2014 alone, amongst seven projects drawing attention from groups of investors, with a group size ranging from 30 to 50, two projects involved 20 meetings and the remainder involved more than 10 meetings between investors and entrepreneurs. The author asked the platform's managers to explain why they help set up physical interaction between lead investors and entrepreneurs, as commented by one manager: "*lead investors emphasized that physical meetings were an irreplaceable tool of performing due diligence and developing competence and relational trust in entrepreneurs which lead investors rely on to make a pledge."* Physical meeting with entrepreneurs was seen effective in building trust for making a pledge. Another platform project manager added: *"we set up physical meetings for investors and entrepreneur since lead investors asked for. If we don't, they would set it up themselves."*

Lead investors were also asked to explain why they used face-to-face contacts with entrepreneurs in their decision processes. As an entrepreneurial investor remarked: *"I have to meet founding entrepreneurs as I must get a sense of whether the entrepreneur and myself can work together for a relatively long term. I also have to figure out the entrepreneur's capability of coping with uncertainty like product demands in market. The only way that I can test all these is to interact with him/her."* Another lead investor commented: "*information on market demands, operational model, key suppliers and entrepreneurs' ability to deal with uncertainty are unobservable. Interacting with the entrepreneur is a way of figuring this out."* The findings of this work suggest that lead investors differing from follow-on investors sought for various tools of building both competence and relational trust that they rely on to make a pledge.

Table 3 about here

This research also examined whether previous external finance obtained (e.g., loans or grants) was a common trait of successful pledges. However, only 17 firms (13%; n=126 responses) had previously obtained external finance before seeking risk capital through AngelCrunch. This is unsurprising, given the early-stage at which financing is being sought. The platform's managers were asked for their views on external finance obtained previously, a senior manager commented: *"lead* investors *change the criterion weight to assess a venture at different development stages.* For instance, *they pay more attention to actual figures reflecting the* *potential of fast-growing start-ups that had obtained external finance compared to those in the first round of raising funds."* Nevertheless, it is not always the case that firms without prior receipt of external finance (e.g., grants, loans, equity) were at a competitive disadvantage of gaining a pledge from a lead investor. Interestingly, amongst 15 firms that published details of their existing investors, nine firms had obtained VC finance, four firms had obtained finance from angels, and two firms had received government grants.

Follow-on investors and the investment behaviours

Follow-on investors typically invest a small amount of capital in a project/venture, and receive a relatively small stake of a company in return (Drover et al., 2017; Block et al., 2017). They are usually non-professionals, and unlikely perform the same level of due diligence as lead investors (Vismara, 2018; Piva and Rossi-Lamastra, 2018). The motivation for follow-on investors to invest in start-ups and early-stage firms is to bet on low probability events in the hope of gaining a high return. As stated by one follow-on investor: "*investing in relatively undervalued start-ups and early-stage firms may be a way of enjoying the fastest growing economy and becoming super rich. A chance of gaining a high return in the secondary financial market becomes small because of the currently overvalued stock."* Although both lead investors and follow-on investors share the goal of gaining a high return, they differ in terms of the degree and ways of building the competence and relational trust that they rely on to make investment decisions.

The asymmetric information between entrepreneurs and follow-on investors become more significant since small and nascent investors are less likely to perform due diligence necessary than large and more qualified investors (Ahlers et al., 2015). Follow-on investors thus look for additional valuable information to overcome the unobservable quality of a start-up as has been described in the literature (Piva and Rossi-Lamastra, 2018; Vismara, 2018). They based initially on inspired lead investors' pledge to pick up a project to evaluate. As follow-on investor commented: *"I followed, and was inspired by, several star/lead investors who had successfully helped investee firms go for an IPO. I invested my parents' money in a project where the known lead investor made a pledge."* Another follow-on investor, who by early 2018 had invested in eight projects with an average of 10,000 CNY in each investment, also stated: "*I followed a specific lead investor who publish a book on equity crowdfunding. I followed his pledges to select projects for due diligence, although I have my preferred* *industrial sector."* It is a lead investor rather than a project that attract follow-on investors to join a crowd for performing due diligence.

A pledge made by a lead investor serves as a signal enabling follow-on investors to interpret information on the entrepreneurs and the venture more positively, or to increase their confidence in their interpretation and evaluation of the venture (Moss et al., 2015). This leads follow-on investors to become more positive about the quality of a venture and its founding entrepreneurs, and allows them to build competence trust despite limited information. As a follow-on investor commented: "*I read through the online applications carefully but pay particular attention to the experience of lead investors. What drove me to make an offer of CNY 20,000 for a venture was not only the entrepreneur's energy and commitment but also the investment experienced of the lead investor.*" The making of a pledge by an established lead investor helps to create a more positive social belief in the venture quality and the entrepreneur's capabilities. It assists entrepreneurs in promoting the quality of their venture (Vismara, 2016). Follow-on investors sought for more information from different sources like pledges of a lead investor and the personal credibility to mitigate uncertainty. According to a platform project manager *"it becomes easy to get follow-on investors to invest in a project once a well-known lead investor has made a pledge."* Follow-on investors' trust in a lead investor to make a *right call* reassures their gut feel about the entrepreneur and venture in the process of reaching their investment decisions.

The data of this work showed that 103 ECF projects included in our sample (representing 56% of the successful campaigns) published the backgrounds of lead investors once they had made a pledge. Releasing such valuable information signalled the commitment and expertise of lead investors to follow-on investors (Agrawal et al., 2016). It increased the likelihood of obtaining funding and led to a better investment outcome, as summarised by a platform project manager: "*We actively send/publish information about well-known lead investors (e.g. expertise and performance history) and their pledged projects to the ECF community. Follow-on investors follow the behaviours of well-decorated lead investors."* Our data showed that the platform used all media available (i.e., site, office walls, street screens, and others) to make well-decorated lead investors and their successful investment stories highly visible to the public. For those lead investors who had not made their profile public, a platform manager explained that they preferred to provide risk capital alone or to co-invest with a small syndicate group of networked investors and stay anonymous. It is worth noting that about 25% of the successful campaigns received the full amount of capital required from a sole investor. The investor-led model unfortunately prioritised lead investors of investing in a venture over follow-on investors, and was responsible for a small size of crowd investors investing a venture.

Strategic choices of platforms

The analysis suggests early strategic choices for ECF platforms. By adopting an investor-led model, the platforms end up reaching a small number of investors interested in a specific start-up or early-stage firm. The campaign-level evidence, for instance, demonstrates a relatively small group of 19 investors was interested in offering ECF in a project with the typical size of seven investors. These findings differ from the average number of investors involved in a successfully funded project on the UK platforms like Crowdcube and Seedrs, which amounted to 92 (Vismara, 2016a). The significant differences in the numbers of investors involved in a successful campaign between China and developed countries were partially related to the investment behaviour of Chinese VCs and other professionals, and partially a network-based approach that remains the key in the informal financial market (Xiao et al., 2013; Burt and Batjargal, 2019). As a manager of AngelCrunch explained: "*VCs and business angels are keen on offering sufficient rather than small amounts of capital required to a firm with the potential for fast growth, leaving little space for follow-on investors."* An entrepreneur also stated: "*I made it clear on my online campaign documents about the maximum number of investors and required area of expertise possessed by investors, such as marketing, financial management, law, and technologies*." Enabling the lead investors, who are usually VCs and business angels, to play a strong role in a campaign allows the funded start-ups to benefit from not only capital investment but also business assistances. Consequently, the fundamental notion of crowdfunding in generating small amounts of investment capital from a large number of investors seems to be challenged in the Chinese context.

Second, an investor-led model encourages lead investors (e.g. VCs) to gain competitive advantages over follow-on investors in not only funding promising projects but also by gaining more insightful information about the investee venture at the post-investment stage. The use of the lead investor-led model aims to overcome a problem associated with the complexity of shareholdings, and to encourage lead investors to provide hands-on support to an investee venture, as by the platform's senior manager explained: "*lead investors are responsible for providing the needed support and monitoring of investee firms by taking a management fee. Investee firms would therefore be able to benefit from the expertise and networks possessed by lead investors like traditional angel finance."* However, this brings its own problems, and potentially leaves follow-on investors vulnerable at post-investment stage. As summarised by a platform manager: *"lead investors who work closely with the venture would gain insightful information about an investee firm, and be better prepared to take any actions necessary to protect their investment capital particularly in a situation where the investee venture is heading for failure."* In addition, within the model, some fundable campaigns might fail to raise crowdfunding because of no pledge being made or a pledge being made by a lesser-known investor.

The investor-led model worked well in the earlier stages of the platform's development where early-stage investors were excited and naive about the innovative investment approach and yet to experience extreme risk involved and an investment taking years to mature. Since late 2016 this model has encountered structural challenges, holding back platform fundraising activity and requiring adjustments, like all the major ECF platforms in China, experienced major strategic changes subsequently. The platform has re-positioned itself to offer intermediation services between entrepreneurs and early-stage investors, based on its rich datasets. The platform's current intermediary role serves angel group investors by presenting them with start-ups with the potential for fast growth, rather than promoting start-ups to a crowd. We have explored whether the regulations were responsible for the slowdown of equity crowdfunding by asking the platform managers about any changes to regulations. As several managers repeatedly remarked: *the state government announces new legislations that facilitated ECF practices, and local governments provide support ECF platforms (i.e. offices at a lower rate and others).* According to several platform managers interviewed in 2016 and 2017, the major ECF platforms have been transferring to an intermediary linking early-stage angel investors to entrepreneurs of start-ups after five years of operation. The main reason for the transformation given by a platform manager was: *"follow-on investors are left particularly vulnerable. The investor-led model helps lead investors to build trust with entrepreneurs, but fails to create mechanisms to protect follow-on investors from undue risk."* A poor performance of early investments made on the platform was another reason for the slowdown, as a platform manager commented: "*only a very small proportion of firms who obtained ECF were able to offer a good return several years after receiving crowdfunding. Angel investors become less motivated to provide funding to early-stage ventures through ECF*." The shift from a large number of crowd investors to several co-investors demonstrates that ECF platforms are moving towards an online variant of a more syndication (Mason and Harrison, 2015). Such shift could be partially related to the business development path, and partially to slowdown in GDP growth in China.

Discussion

This study explores how lead investors build interpersonal trust in the entrepreneur for making an early pledge in the specific context of a campaign. This work contributes to the entrepreneurial finance and crowdfunding literature in several aspects. First, it provides insights into the process of building trust for decision-making in related to both lead and follow-on investors. Prior studies on signalling information have investigated what drives the success of equity crowdfunding campaigns without examining lead and follow-on investors' determinants separately (Block et al., 2018; Bernstein et al., 2017; Ahlers et al., 2015; Vismara, 2016). The findings of this study show that lead investors are not only VCs and experienced angels but also established companies and experienced entrepreneurs. As is the case with angel investing activity and syndicated deals, lead investors who make an early pledge of at least of 30% of the risk capital required, and monitor the investee firms on behalf of other investors (Agrawal et al., 2016). In contrast, follow-on investors are allowed to invest a small amount of capital in a start-up. Consequently, lead investor's process of building trust in the entrepreneur differs from that of follow-on investors. Lead investors start by working on selective signalling information published online and establish competence trust in the founding entrepreneurs for selecting ventures for due diligence. The selective information (e.g., reputations of the universities at which founding entrepreneurs/teams have studied) offers a fundamental basis upon which lead investors can figure out the changing job costs and reputation costs, operational skills and relevant expertise, all of which contribute to competence trust building (Bernstein et al., 2017; Kromidha and Robson, 2016; Wilson and Martin, 2015). As one interviewed lead investor stated: *"I am investing in people who are key to business success, and have to meet them before offering a relatively sufficient amount of capital, and signalling a good call to follow-on investors."* Our analysis of the empirical evidence suggests that lead investors then rely on physical interaction with an entrepreneur as a useful tool of performing due diligence for building competence and relational trust. Physical interaction is a useful tool for lead investors to work out unobservable information for building competence trust to mitigate uncertainty identified. It also establishes a sense of cooperation between lead investors and the founding entrepreneurs.

In contrast, follow-on investors are usually amateurs, and typically have limited resources and lack expertise to evaluate an investment opportunity and monitor the investee firm at the post-investment stage. They thus do not perform the same level of due diligence as lead investors. Our in-depth evidence suggests that some follow-on investors base on the pledge of lead investors with the positive perception to select projects for performing due diligence. They then look for information published on the venture and entrepreneur together with the judgements from other investors (e.g. the presumed wisdom of a crowd) to develop their confidence of making the final decisions. A pledge of knowledgeable lead investors seems to increase follow-on investors' confidence of rationally making their investment decisions (Barsade, 2002). However, simply herding after a lead investor limits follow-on investors' interactions with the lead investor, and discourages to build extensive relations between them for further cooperation.

Second, prior studies, building on a signalling theory, have entirely studied the determinants of campaign success and outcomes, (Block et al., 2018; Ahlers et al., 2015; Vismara, 2016). This research takes one-step further by demonstrating the importance of trust in the crowd who are glued to a campaign. Agrawal et al., (2013) indicate that the direct transfer of information to investors is hampered by moral hazard, which in turn can hamper the investment process, but crowdfunding reduces information asymmetry. This work shows that investors glued to a campaign transfer information amongst them to reduce information asymmetry between entrepreneurs and investors. More importantly, this work uncover that a lead investor's behaviour (e.g. physical interaction and the making of a pledge) together with his/her record of accomplishment are used to compensate for less thorough due diligence that small and nascent investors can perform. Transferring additional and valuable information amongst the investors is critical to build interpersonal trust for managing an early-stage investment in the virtual world alone.

Finally, another contribution of this work is methodological. Current literature on ECF is dominated by quantitative studies, and based primarily on the information recorded in the platform (Piva and Rossi-Lamastra, 2018; Vismara 2018), with a few of exception (Brown et al., 2019). This study conducts a three-year inductive field study of Chinese ECF, and gathers both campaign and platform-level data from multiple sources. This research therefore provides insights onto the unobservable decision-making processes of crowdfunding investors. We capture the role of events organised and efforts made by the singular in supplementing the selective information disseminated by start-ups/young ventures to early-stage investors. Moreover, prior work on crowdfunding has generally used the selective information about a start-up's quality to test the likelihood of campaign success (Cholakova and Clarysee, 2015), disregarding the differences in investment behaviour between lead and follow-on investors and the additional activities conducted by investors. By gathering in-depth data, we provide early insights into the role of platforms in facilitating the process of trust building for campaign fundraising (McKenny et al., 2017).

Limitations of current research and avenues for future research

In common with previous research, this study is constrained by the datasets available. This work was only able to gather data on completed deals rather than the entire pool of early-stage firms to have received a pledge or the entire pool of early-stage firms considered by lead investors. The sample does not allow for the examination of unsuccessful campaigns, their characteristics of selective information of founding entrepreneurs, and the role of a lead investor. This work only managed to gather data about the identity of the lead investors, with limited information about the follow-on investors. Future research could collect data on all of the campaigns considered by lead investors, and test the role of competence and relational trust in making a pledge. Although our data cover a period of seven years from the platform establishment (2011) to the current period of study (January 2018), this work is limited by the size and scale of in-depth interviews and first-hand observations. Future research could explore the role of the interactions between lead and follow-on investors in arriving at follow-on decisions.

This work has focused on one specific platform in China, which experienced rapid growth and then a slowdown since its establishment in 2011. Our findings suggest that an investor-led model encourages lead investors to engage heavily with entrepreneurs to build both the competence and relational trust that they rely on to make a pledge. This supports the view that the virtual world alone has its limitations in building such trust that lead investors rely on to arrive at investment decisions (Le Gall and Langley, 2015). A similar study undertaken in other countries could provide a better understanding of the extent to which ECF investors rely on both competence and relational trust to make their pledges, which may vary according to the institutional setting (Bruton et al., 2015). Signalling selective information about a lead investor and a pledge helps to create a more positive belief in the entrepreneur's capabilities and the quality of the start-up idea, helping follow-on investors to interpret information more positively. Interestingly, AngelCrunch's investor-led model shifts from focusing on a large number of crowd investors to serving a small group of co-investors for an investment opportunity. Is the fundamental notion of ECF in raising a small amount of capital from a large number of crowd investors sustainable? Future studies may continue to examine how the trust role fits into the context of ECF by focusing on more ECF platforms located in China and in other countries, and on the role of the platforms in influencing the likelihood of campaign success.

Practical implications

In addition to contributing to literature on entrepreneurial finance and trust theory, this study has implications for platforms, investors, and policy makers. First, the findings of this study demonstrate that understanding the importance of trust in the crowd might help platforms to manage the campaign process more effectively. Recognising the strong role of lead investors' perceptions and attributions in the decision-making process might help platforms to engage with both lead and follow-on investors more efficiently. Knowing the embedded problems related to the much smaller number of investors involving in and investing in a project might help platforms to make strategic choices for attracting follow-on investors. Second, this work highlights the limitations of the virtual world alone to build such trust and manage problems associated with information asymmetry between entrepreneurs and investors in the context of a campaign. Using a mix of virtual and traditional methods of building such trust works for lead investors, but might change the approach from equity crowdfunding to syndication. Finally, policy makers should be award of the strong role of trust in the investment decisions, and build a framework where platform, investors and start-ups are encouraged to share more valuable information online for trust building.

Conclusions

This study offers early insights into competence trust and relational trust building on which early-stage lead investors rely to arrive at investment decisions, as well as early insights into the follow-on investors' decisions being the influence by the behaviour and reputation of a lead investor. The selective and formative information about founding entrepreneurs and the start-up idea enables lead investors to build initial competence trust for their screening decisions, but has its limitations in terms of developing competence and relational trust that they rely on to make a pledge. Physical interactions between entrepreneurs and lead investors help to perform due diligence through which both competence and relational trust are built. Second, for early-stage follow-on investors, most of whom are not professional, their perception of a lead investor and his/her pledges together with the selective and formative information published online determine their investment decisions. Managers of ECF platforms could help early-stage lead investors, who are yet to make successful investments, develop their public profiles on the platform. As the ECF platform evolves, it may be strategically wise to offer intermediary services to assist lead investors and co-investors, rather than making promising business offerings to a large number of early-stage investors.

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Figure 1: Overview of data collection

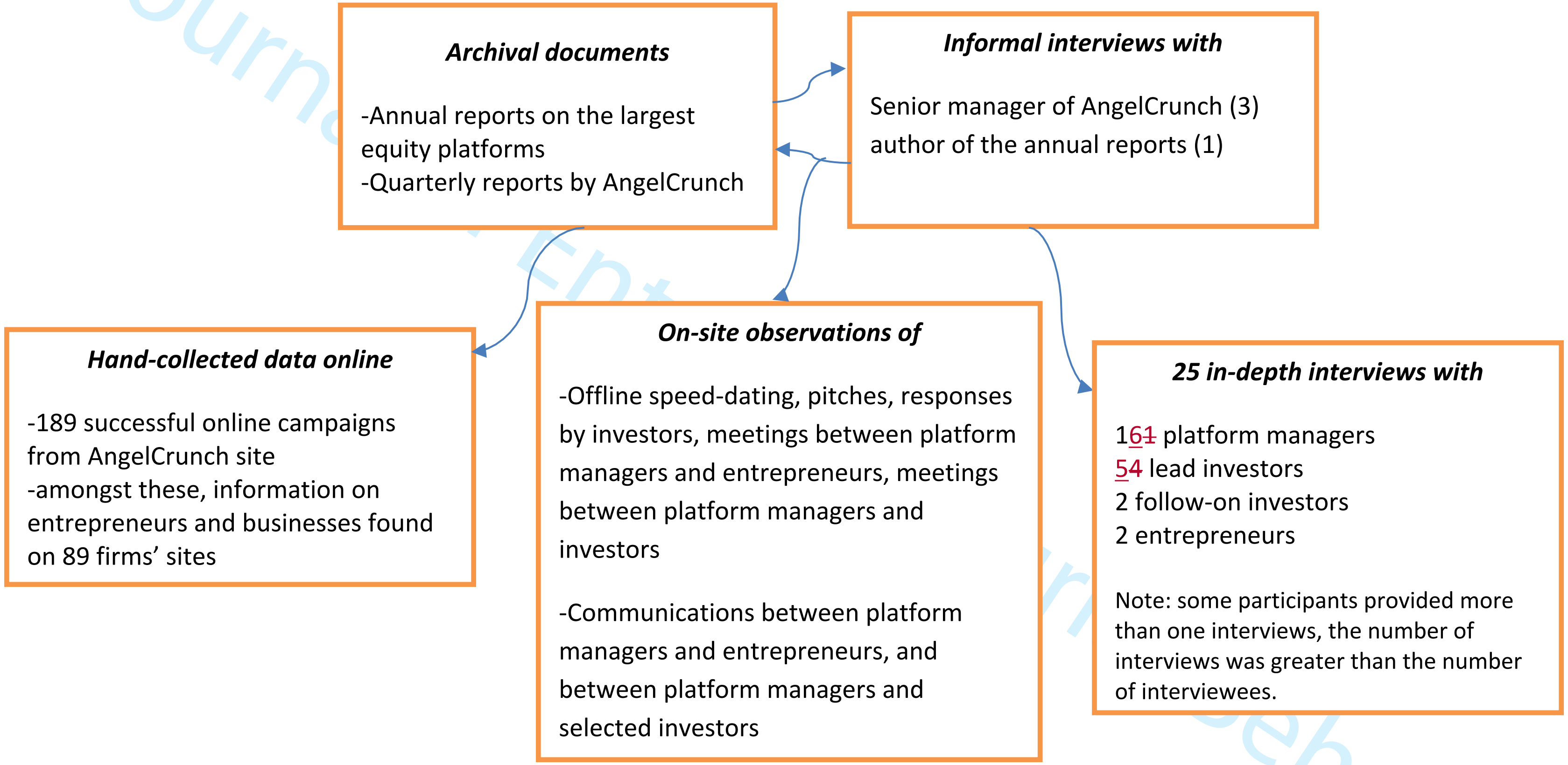
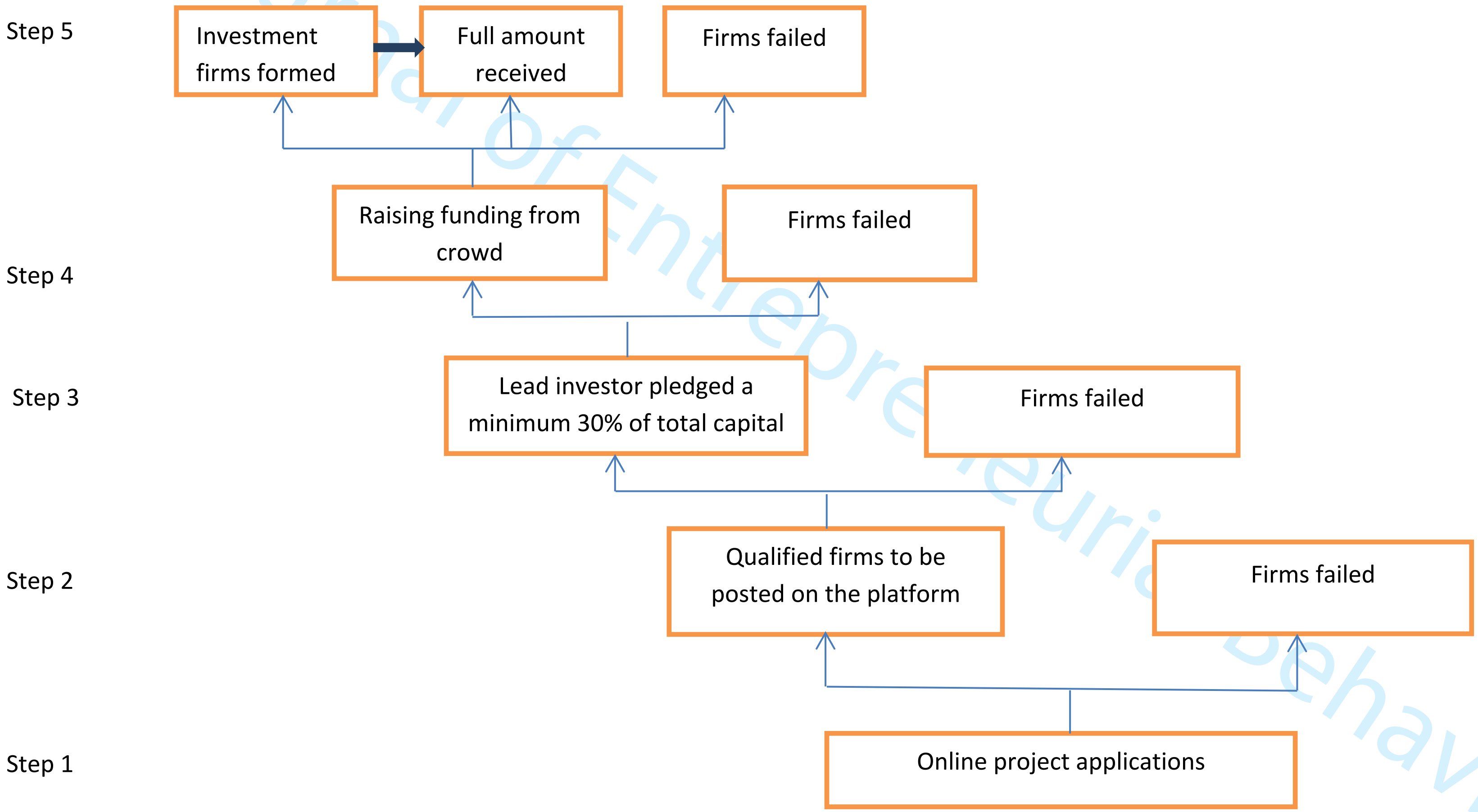


Figure 2: AngelCrunch fundraising operation process



Sources: developed by Xiao based on the in-depth information collected

Figure 3: Process model of lead and follow-on investors' trust

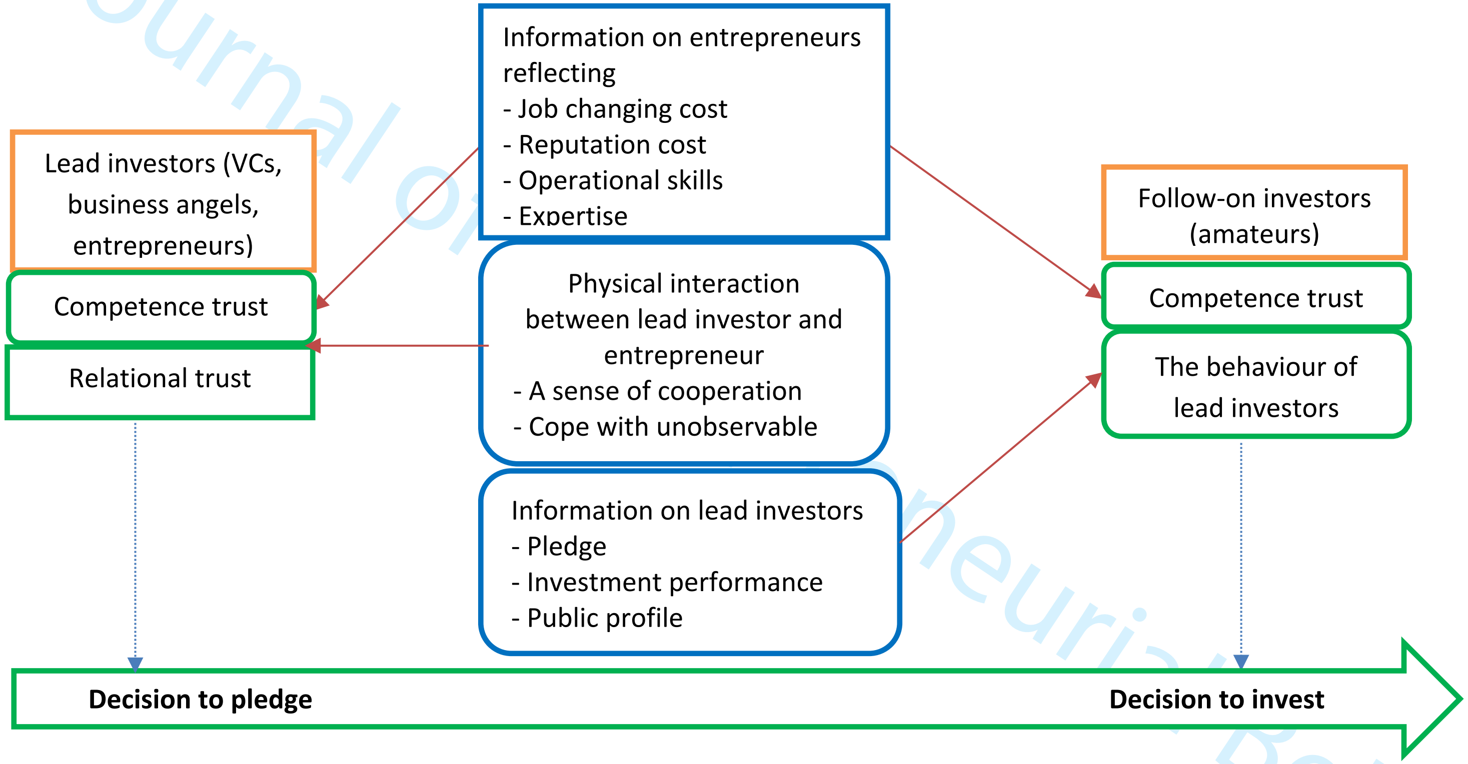


Figure 1: AngelCrunch fundraising operation process

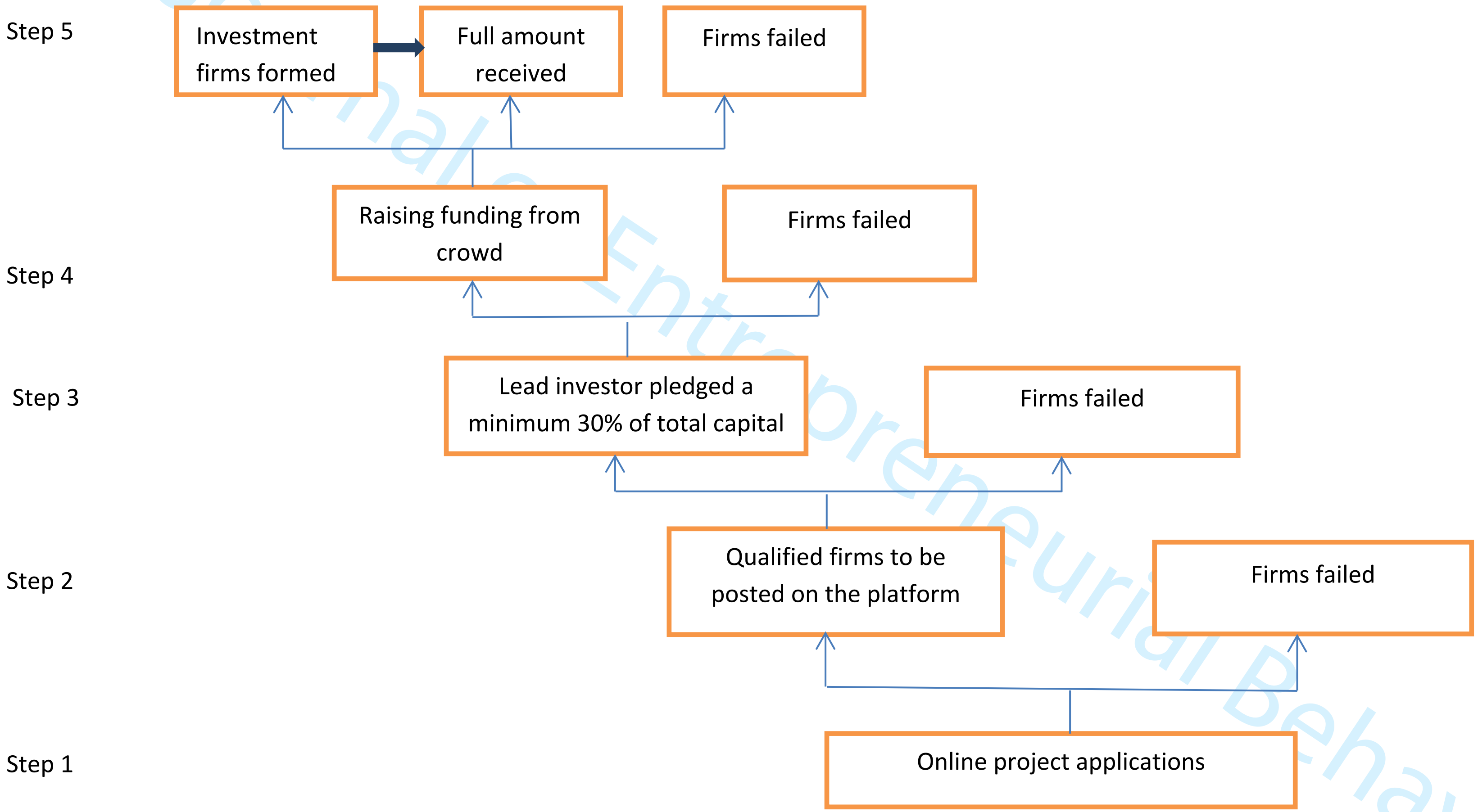


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Figure 3: Process model of lead and follow-on investor trust

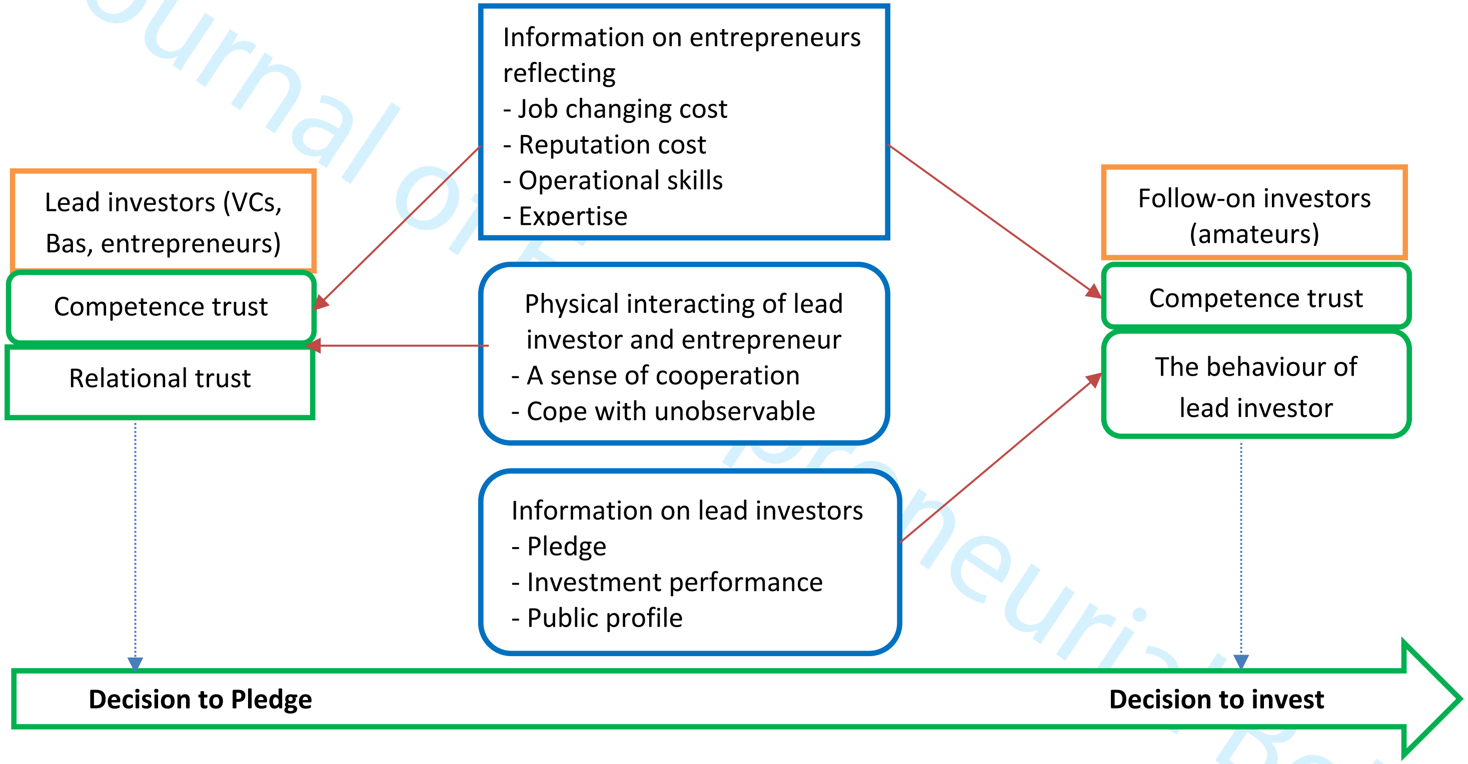

Table 1 Growth and development of AngelCrunch from 2011 to 2015

Year	**Project applications**	**Qualified projects to post on the platform**		**Successful projects**		**Amount of risk capital raised** (million CNY)*
	No	No	%	No	%	
2013	6456	1097	17%	65	5.9%	d/k
2014	8410	2607	31%	77	3.0%	769
From 2011 to August 2015	16090	4928	31%	230	1.4%	1003

Developed by the author based on the sources from IT JUZi and AngelCrunch

*Note: Exchange rate is about 1.00GBP=9.79878CNY on 23rd June 2015

Table 2 Project distribution by industry sector and business model

	Platform B2B B2C	**Online business**	**Apps**	**Traditional business**	**Total** (Col.%)
Software and database	11	18	15		44 (24%)
Leisure	27	11			38 (21%)
Healthcare	10	2			12 (7%)
Education and career	20	6		1	27 (15%)
Food	12	3		2	17 (9%)
Law	6	1			7 (4%)
Others	28	10			38 (21%)
Total	114	51	15	3	183 (100%)

Source: AngelCrunch

Table 3 Illustration of competence and relational trust and pledge

Trust	Lead investors	Platform managers
Competence	"I liked the business idea, and the entrepreneur's passion about the business. That was great. However, I had to figure out whether he has the capability of dealing with uncertainty because of full of uncertainty ahead. Asking similar questions at different points in time helped me test his capability." "I believe that the only way of mitigating risk was to make sure that the entrepreneur was the right person for the job. Interacting with him helped me develop my gut feel about his ability to succeed the business."	"We made arrangements for lead investors to meet entrepreneurs regularly. We know that lead investors will not be able to make a pledge without trust in entrepreneurs' ability to run the business. Given that early-stage ventures being assessed, it lacks of observable information."
Relational	"I should be able to have my confidence about the entrepreneur whom I can work with not only now but also in the future. My experience of investing in early-stage ventures told me that sharing views and value is important otherwise it could cause problems at the post-investment stage. " "I actually invest in the entrepreneur rather than the venture because things around the business kept on changes. I walked away from a promising project since I found the entrepreneur was quite self-centred."	"Lead investors are typically professional and experienced investors. They know the importance of working with business partners that are right for them. There were some cases, the lead investors were interested in at the early stage, but they did not make a pledge at the final stage. In one case, the lead investor told us that it was not easy to communicate with the entrepreneur."