



# All you need is trust? A critical review of the trust and entrepreneurship literature

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## Abstract

This article critically reviews the literature pertaining to trust and entrepreneurship, highlighting the diversity and complexity of this construct. In addition, the interdependency of trust with context, as well as its dual nature in relation to control and as a sanctioning mechanism, is explored. Trust can be both a dispositional and a behavioural outcome; ‘genuine’ (personal) trust, sanctions and control coexist and co-evolve within and across different contexts. Trust influences entrepreneurship, not always positively, but entrepreneurial behaviour also has an impact on levels of personal and institutional trust. Future studies of trust and entrepreneurship need to acknowledge the bright and dark sides of trust, its duality and the different contexts in which it occurs. Ultimately, we need to develop a far more critical analysis of the importance and role of trust in the context of entrepreneurship.

## Keywords

context, entrepreneurship, trust, trust duality, trust process

## Why do we need research on trust and entrepreneurship?

While walking at Lake Constance last summer I passed an old farmhouse in front of which stood a table full of apples, pears and jars of honey. A handwritten note set out the prices per item, a basket contained some coins and even a small banknote, but no one attended to the stall. I filled my backpack with apples and a jar of honey and left the required cash amount. Reflecting upon this while I sat down to review the literature on trust and entrepreneurship, I realised that I would not have thought of taking apples and honey without paying. Neither did it ever cross my mind to take the money. ‘This is the correct way of doing things’: unsurprisingly, my behaviour was governed by social norms as to what I perceived as correct. I also felt obliged to pay because I wanted to reciprocate the (assumed) trust that the farmer had extended towards me, a stranger. What made the

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farmer trust in the honesty of someone whom they most likely would never meet or know? Surely, this is naive behaviour in any type of commercial exchange? Is such trust in occasional customers a 'natural attitude' (Möllering, 2006), supported by the spatial context (a rural region) and the norms and values of our culture?

Dawes and Thaler (1988) report a similar example, where farmers from Ithaca in New York State, USA put fresh vegetables on unattended road stalls. The payment boxes were attached to the stalls but had a slit to prevent cash from being readily removed – something I have never encountered so far during my walks in Germany. Does this indicate a higher-trust environment (Fukuyama, 1996) where institutions support trust-based behaviour, or did the German farmer take a 'calculated risk' (Williamson, 1993)? In other words; if I had taken the apples and honey without paying or even left with the cash basket, would the potential loss have represented a very small risk to the farmer and thus, been acceptable? Williamson (1993) suggests that commercial relationships are never governed by personal trust but rather, are always based upon calculated risk. So, was the exchange here at all trust-based? These questions already hint at the intricacies and complexities in relation to trust and entrepreneurship, some of which will be discussed within this article.

Trust has been a well-researched topic in many academic disciplines (for an overview of trust research in different disciplines, see Bachmann and Zaheer, 2006), including management science (e.g. Lewicki et al., 1998; Rousseau et al., 1998) and organizational theory (Lane and Bachmann, 1998; Saunders et al., 2010), the behavioural sciences and recently, neuro-economics (e.g. Zak, 2005), economics and political theory (Ostrom and Walker, 2005), philosophy (Baier, 1986) and sociology (Luhmann, 2000b; Sztompka, 1999). In recent years, entrepreneurship scholars have shown a growing interest in the role of trust (Höhmman and Welter, 2005; Welter and Smallbone, 2006), which begs the question as to whether analyses of this construct are becoming increasingly popular. Of course, trust is seen to assist in lowering the transaction costs of commercial actions and the risks inherent in entrepreneurship; however, there are also similarities between both concepts, which may explain the increasing focus upon trust in the recent entrepreneurship literature. When pursuing entrepreneurial activities and trusting, individuals deal with the unknown;<sup>1</sup> when acting entrepreneurially, we do not know whether we will achieve the intended results; and when trusting, we do not know whether the persons in whom we trust will be worthy of it.

A search for the keyword 'trust' in major entrepreneurship journals found an impressive number of articles: 263 in *Entrepreneurship & Regional Development*, 229 in *Entrepreneurship Theory & Practice*, 249 in *Journal of Business Venturing* and 224 in *International Small Business Journal*. For example, related studies have analysed trust as a crucial ingredient for starting and growing a new business. This includes research on human resource flexibility (Zolin et al., 2011), relations with business angels, venture capitalists (Maxwell and Lévesque, 2011; Strätling et al., 2011) or banks (Howorth and Moro, 2006), franchising (Davies et al., 2011) and buyer–supplier relationships (Şengün and Nazli Wasti, 2009), or the role of trust for the internationalization of small business (Fink and Kessler, 2010). Trust is also assumed to play a significant role in family firms. Related research has focused on the role of trust as a governance mechanism (Eddleston et al., 2010) and as a strategic advantage for family firms (Fink, 2010; Steier, 2001). Moreover, trust is seen as a means to decrease the costs and risks of business transactions in hostile or turbulent environments (Manolova et al., 2007; Puffer et al., 2010; Smallbone and Welter, 2001; Yan and Manolova, 1998).

However, the label 'trust' appears to have become something of a catch-all phrase, afforded to every entrepreneurial phenomenon that involves any form of non-contract-based collaboration which has no clear explanation. Many articles appearing in my keyword search seem to refer to trust incidentally, without being aware of its precise nature or outlining a definition of the

construct. It is unclear whether trust is considered to be a means or the explanation, and the concept is used to explain diverse and varied aspects of entrepreneurship. For example, trust is seen as a quasi-automatic outcome of social capital, helping to foster regional new business formation (Audretsch et al., 2011), but it is understood also to be an element of cognitive social capital (Lee and Jones, 2008). Others see trust as a requirement for different enterprise-related processes such as information and communication technology (ICT) adoption (Beckinsale et al., 2011) or knowledge transfer (Lockett et al., 2008). Moreover, trust generally is seen as something benign and helpful (Garguilo and Ertug, 2006); however, recently the potentially negative effects of trust and its dark sides have become more clearly acknowledged within the entrepreneurial context (e.g. Goel and Karri, 2006; Tonoyan et al., 2010; Zahra et al., 2006).

Against this background, this article critically examines the current discussions and debates around trust and entrepreneurship, arguing for a perspective which accounts for the complexities and manifold dimensions of enacted trust. The introduction suggests why reviewing the literature on trust and entrepreneurship is of relevance. The following sections will look into what trust is, exploring its nature and discussing definitional issues, and exploring how trust interacts with entrepreneurship. The next section focuses on themes in relation to trust and entrepreneurship which have been neglected so far, discussing the dark sides of trust, the trust/control duality and how trust is built, destroyed and repaired. Finally, the conclusion explores the contribution that entrepreneurship research could make to the trust debate, as well as suggesting ideas for future research.

## **What is trust? Exploring the nature of trust**

Trust is an elusive concept, and no single consensual definition is agreed. Generally, the literature distinguishes between different forms or types of trust. Lewicki and Bunker (1996) emphasize these differing forms of trust in relation to how it evolves, while Zucker (1986) makes a distinction between institution-based, characteristic-based and process-based trust. Others define types of trust by its source, differentiating between cognitive-based and affect-based trust (McAllister, 1995), contract, competence and goodwill trust (Sako, 1992), or trust based on deterrence, calculus, knowledge and identification (Lewicki and Bunker, 1996). Several authors identify forms of personal, collective or institutional trust (Höhmann and Malieva, 2005) in connection to the micro, meso and macro levels where occurs (Humphrey and Schmitz, 1998).

Reciprocity, expectations or beliefs about the intentions and trustworthiness of others are the common elements in most definitions of personal and collective trust (Lewicki and Brinsfield, 2011). Reciprocity signals to both trustor and trustee that the trust they extend to each other will be returned. In this regard, trust is based on a perception of the probability that other agents will behave in a way that is expected and benevolent. In the entrepreneurial context, a firm owner expects a business partner to act in their own interest, or at least to take such interests into account: they cannot be sure about how such expectations might be met, but hope that they will not be disappointed. Such expectations are based on interpretation of signals (or trust cues), and on a willingness to be vulnerable to another party (Rousseau et al., 1998). Trustworthiness helps, because individuals can signal that they are worthy of trust thus, encouraging trustful behaviour (Mayer et al., 1995). The key characteristics of trustworthy partners include personal characteristics, past behaviour and emotions such as demonstrated honesty, loyalty, sympathy and empathy (Nooteboom, 2002).

Additionally, trust stems from the characteristics of a community or organisation (Table 1). This includes, for example, ethnic groups, professions, networks, firms, associations or whole

**Table 1.** Forms, levels, objects and sources of trust

| Forms               | Level | Object  | Source  |
|---------------------|-------|---|---|
| Personal trust      | Micro | Relationship, person  | Emotions, intentions, goodwill, benevolence, characteristics of persons, experiences, knowledge, competencies |
| Collective trust    | Meso  | Community (e.g. kinship, ethnic group, profession)<br>Organisation (e.g. network, firm, association)<br>Industry  | Characteristics of groups, information, reputation, recommendation/certification, professional standards      |
| Institutional trust | Macro | Cultural rules (e.g. norms, codes of conduct, values)<br>Formal regulations (e.g. laws, certification, licences)<br>Business infrastructure (e.g. business courts, administration, financing organisations)<br>Government |   |

industries. Such collective trust arises from the recommendations of others within this group (Williamson, 1993), on reputation, which refers to knowledge held by individuals about a potential partner in terms of their behaviour in prior network relations, or on shared rules and codes of conduct within groups and professions (Welter and Smallbone, 2006).

The trustor and trustee might assume that the business partner or customer will not behave in a way detrimental to their relationship, even if there are no written or explicit rules to this effect. However, business relationships are also governed by norms, values and codes of conduct inherent within a society (Welter and Smallbone, 2011): this refers to institutional trust (also labelled 'system trust') as a form of general trust in the functioning of the overall political, legal or economic framework and its informal rules (Luhmann, 2000b; Williamson, 1993; Zucker, 1986). Determinants of institutional trust are both endogenous and exogenous (Hudson, 2006) where the former refers to institutional performance: the higher the levels of institutional trust generated, the better they perform. The latter, exogenous factors, are related to individual characteristics such as income and education, suggesting that 'mistrust is partially based on ignorance' (Hudson, 2006: 59). Moreover, institutional trust is easily destroyed, as adverse experience 'results in a generalized loss of trust across all institutions' (Hudson, 2006: 59).

Table 1 illustrates forms of trust in relation to the levels upon which it occurs, its object and sources. Trust is a multidimensional concept, with recursive links between different levels, forms and sources. For example, personal and collective trust overlap in terms of trust objects and trust sources; communities and organisations consist of people and relationships between people therefore, personal trust can foster collective trust; and competencies which foster personal trust at micro level are reflected in reputation and recommendations which in turn influence collective trust at the meso level. Collective and institutional trust has similar sources: conventions at the meso level, for example within a profession or industry, are informal; and culturally-based rules, in this case the culture of a profession or industry (Welter, 2005a). Institutional trust is both an object and a source for collective as well as personal trust (Nooteboom, 2002: 8). However, although there is agreement in the literature that institutional trust draws attention to the context in which trust occurs, organizational scholars and economists disagree as to whether institutional trust is a 'form of individual or collective action that is constitutively embedded in the institutional environ-

ment in which a relationship is placed' (Bachmann and Inkpen, 2011: 284) or an outcome of functioning institutions (Wang and Gordon, 2011).

Nooteboom (2002) understands trust as a 'four-plate predicate' where an individual trusts someone or something conditionally – that is, depending upon on their respective situation. The entrepreneur can trust a supplier to deliver good quality: in other words, the level of competency is trusted, but this does not require similar trust in the supplier's benevolence or goodwill. Trust is also dynamic: it shifts over time, so personal trust may gain or lose importance during a commercial exchange. Moreover, trust is bound by temporal, social, spatial and institutional contexts (Welter, 2011); such issues will now be discussed further in the following sections.

## **How trust interacts with entrepreneurship**

Evidence is now reviewed by exploring the relationship between trust and entrepreneurship, in order to analyse how personal and institutional trust interact with entrepreneurship, thus influencing its nature and extent. Given the difficulties of distinguishing clearly between personal, collective and institutional trust, collective trust will be subsumed under personal and institutional trust. Personal trust is understood to emerge between two or more partners, and institutional trust as that which refers to codified informal and formal rules within a culture (macro level) or a community (macro and meso levels).

### *Overcoming liabilities: the role of personal trust*

Much of the discussion surrounding trust and entrepreneurship focuses on networks and social capital, where network relations are seen as a proxy for personal trust (Brunetto and Farr-Wharton, 2007). Trust is believed to support network relations (Anderson et al., 2007; Jack et al., 2004; Kim and Aldrich, 2005), while network contacts play a role in recognising and constructing opportunities (Jack and Anderson, 2002), fostering business creation (Johannisson, 1988), mobilising complementary resources, obtaining advice and other forms of (emotional) assistance, and establishing viable business relations (Greve, 1995). The importance of support from strong ties has been demonstrated (e.g. Jentsen and Greve, 2002) particularly with respect to enterprise survival and success in the early stages of venture creation (e.g. Brüderl and Preisendörfer, 1998). Reflected in the commitment and assistance of family and close friends or ethnic communities (Deakins et al., 2007), trust can be crucial in entrepreneurial success; strong ties tend to bind individuals with similar or complementary interests into long-term and intense relationships. Such ties contribute to 'economies of time', adding to the capability of quickly capitalising on market opportunities (Uzzi, 1997). Moreover, during the early stages of enterprise development, strong ties can encourage entrepreneurial persistence (Davidsson and Honig, 2003). For example, Greve (1995) suggests that trust-based personal relationships enable entrepreneurs to gain greater feedback on their business idea. Thus, trust may be viewed as the lubricant without which network activity would not be possible, thereby representing one of the key properties of social capital (Anderson and Jack, 2002). Trust is also identified as important for addressing liabilities of newness: Aldrich and Fiol (1994) found that successful new founders were more likely to build networks of trust which assist in signalling legitimacy. However, Newbert and Tornikoski (2011) found that relationally embedded ties of nascent entrepreneurs (i.e. ties that rely on frequent contact with each other), while potentially reducing the costs of resource accrual, may instigate some loss of bargaining power. In order to mitigate these effects, they suggest a

strategic approach to relationship-building where nascent entrepreneurs should focus on establishing 'a strong sense of trust' (Newbert and Tornikoski, 2011: 24).

It has been argued that for networking to be successful at any stage of business development business ties must be trust-based to some extent, and that in business-related networks, over time, calculative ties are supplemented by affect-based relations (Jack et al., 2008, 2010; Smith and Lohrke, 2008). Moreover, Neergaard and Ulhøi (2006) illustrate that trust can be institutionalized in networks only if it is transferred from the personal to the organizational level. Any top-down measures will 'at best trigger an interest in new forms of cooperation, but at worst unintentionally destroy existing relationships, and even companies' (Neergaard and Ulhøi, 2006: 535). Network relations can vary in nature at different stages of business development: whereas strong ties are of value when developing a business idea and starting a business, excessive reliance may become a constraint as the business develops and needs access to non-redundant ideas and resources. Such a change is captured in the model of network evolution developed by Butler and Hansen (1991). During the pre-start-up phase where nascent entrepreneurs identify business opportunities, they rely mainly on strong network ties and contacts, while in the later stages the networks become more business-oriented. This is not altogether surprising in some respects, since opportunities for the latter type of networking tend to increase as the business develops. Therefore, personal trust might decrease in importance over time and institutional trust becomes more important, indicating recursive interactions between both forms of trust.

### *Low- and high-trust environments: the role of institutional trust*

Institutional trust indirectly contributes to entrepreneurship development and business growth. Studies demonstrate that formal and informal institutions that promote or allow for institutional trust can foster national economic growth and socio-economic development (e.g. Knack and Keefer, 1997; Lane, 1997; Özcan and Bjørnskov, 2011; Zak and Knack, 2001). Emphasizing the linkages between social, institutional and spatial contexts and their impact on trust, Fukuyama (1996) introduced the notion of high-trust and low-trust environments: high-trust milieux are characterised as 'trust clusters', where trust-based relationships of different kinds exist between a large number of social actors (and vice versa), civil society abounds and individuals are likely to socialise with strangers. High-trust milieux are understood to carry high level of institutional trust, and low-trust milieux low levels of institutional trust. Both milieux are self-enforcing cycles, with high-trust environments fostering market entry, enterprise growth and productive entrepreneurship (and vice versa). Welter and Smallbone (2006) emphasize that although trust needs to be interpreted and viewed in its specific context, the notion of high-trust and low-trust country contexts is too simplistic, suggesting instead that levels of trust differ not only across countries, but also within regions and sectors (see also Ferrin and Gillespie, 2010).

Why is institutional trust lower in some contexts while it is higher in others? Humphrey and Schmitz (1998) point to path dependencies and downward spirals of trust (Nooteboom, 2002) arising from historical reasons, an erosion of moral norms under socialism, weak institutional systems, non-functioning sanctions during economic volatility, exploitative behaviour during one-off transactions and the use of reputation as a sanctioning mechanism when the basis for trust is undermined. Under such circumstances, a trust culture is likely to take generations to emerge, given the extended temporal dimension under which trust is established and normatively embedded (Williamson, 2000). With regard to post-socialist economies, research has drawn attention to cultural or historical path dependencies which might prevent the development of institutional trust, although the literature holds two contrasting, albeit simplifying, arguments. It has been

suggested that ‘real socialism’ prevented trusting behaviours, explaining the lack of any form of trust in post-socialist phases (e.g. Raiser, 1999). In contrast, others argue that the necessity to rely on informal networks in socialist everyday life and the ideology of mutual solidarity have supported the development of personal trust between strangers (e.g. Rehn and Taalas, 2004). However, this does refer to personal trust while the level of institutional trust might still be low or missing, but obviously personal and institutional trust coexist.

### *The co-existence of institutional and personal trust*

Granovetter (1985) links personal and institutional trust, emphasising how the former is vital in all market transactions when business partners are unwilling to rely on institutional arrangements or cultural norms alone (in other words, where there is a low level of institutional trust). For example, in contexts where the regulatory and legal framework does not attract a similar level of institutional trust, entrepreneurs tend to draw on ties based in personal trust, such as *blat* or *guanxi*, as has been demonstrated in post-socialist and developing countries (e.g. Batjargal, 2003, 2006, 2010; Ledeneva, 1998, 2006; Leff, 1979; Manolova and Yan, 2002; Puffer et al., 2010; Raiser et al., 2003; Smallbone and Welter, 2009a, 2009b; Tan et al., 2009). Such behaviour reflects both a path-dependent response in the form of a ‘habit’ from socialism, where individuals had strong mutual ties with family and friends but mistrusted public institutions (Raiser et al., 2001), and a situational response to market imperfections. In the case of Russia, Voronkov and Zdravomyslova identify a ‘master norm of double standards or hypocrisy’ (2004: 103) as a legacy of the Soviet period, in explaining the use of *blat*. Written laws regulated the official public realm while unwritten codes dominated the unlawful, but tolerated, informal society which evolved under socialism. Habitual codes were based on collective identities, and trustworthy relations developed throughout everyday life. When the process of transformation began, such double standards collapsed, with a preference for ‘familiar’ codes to govern conduct. This resulted in personal trust and networks of favours dominating entrepreneurship, while institutional trust was low or absent.

Over time, as entrepreneurship develops (and the institutional environment becomes stable), impersonalised contracts slowly force out old practices (Peng, 2003) yet, personal trust remains where survival strategies and coping strategies of individuals and petty traders or informal entrepreneurship are concerned (Voronkov and Zdravomyslova, 2004; Welter and Smallbone, 2009). In a similar vein, Tan et al. (2009) illustrate how, over time, *guanxi* ties in China have been replaced by institutional trust. This, in turn, reshapes entrepreneurial behaviour with adaptations to the new rules of the emerging market economy. From a historical perspective, Zucker (1986) demonstrates how, in the US context, institutional trust gained increasing importance as societies became more differentiated and dispersed. This suggests that institutional and personal trust not only coexist (Dietz, 2011) but also co-evolve, complementing or substituting for each other – this draws attention to the dual and dynamic nature of trust.

### **Reconsidering the complexity of trust**

Lewicki et al. (1998, 2006) criticise most empirical studies of trust for adopting a snapshot and static view, one-dimensional constructs and normative judgements along the lines of ‘trust is good; distrust, power and control are bad’, and affording limited attention to the dynamics of trust. This section explores some of these shortcomings in relation to trust-related entrepreneurship research.

### *Is trust always good? Exploring the dark sides of trust*

As argued in the introduction there is a danger that in analysing aspects of business behaviour, the role of trust might be exaggerated. To the extent that this occurs, there is almost an ideological assumption that trust is good: although the management literature has acknowledged its potentially dark side (Lewicki et al., 1998; McAllister, 1997), relatively few entrepreneurship studies explicitly engage with this question. Those that do address this issue consider it to arise from the over-embeddedness of institutions and relationships.

At a macro level, the dark sides of institutional deficiencies and distrust of business development have been explored: for example, Tonoyan et al. (2010) analyse the determinants of corruption in emerging and mature market economies in Western and Eastern Europe. They demonstrate that poor enforcement of formal institutions, as well as the inefficiency of financial and legal regulations in tandem with exclusive and strong network ties, breed corruption. Based on the example of Vietnamese entrepreneurs, De Jong et al. (2010) show that bribes foster entrepreneurial performance when they increase trust between entrepreneurs and officials, enabling the former to obtain favourable treatment. As a consequence, vicious circles develop where entrepreneurs continue to rely on trusted and successful 'avoidance' behaviour, which in turn might reinforce negative attitudes of governments towards entrepreneurship thus, impeding institutional reforms and the development of institutional trust (Welter, 2005b).

In addition, the effects of spatial proximity upon trust and entrepreneurship are influential (Welter, 2011). Spatial proximity supports face-to-face business contacts thus, fostering trust formation, but also it can contribute to 'over-embeddedness' and entrenchment at the regional level (Grabher, 1993). Kaminska (2010) explores the impact of personal trust in the form of bonding social capital in the Polish region of Łódź, vividly illustrating that, albeit fostering local economic development in the early 1990s, bonding social capital subsequently hampered cooperative behaviour and impeded learning and unlearning within the region. Drawing on case material from small and medium-sized enterprise (SME) cooperation in East Germany, Thomas (2000) illustrates the consequences of such spatial over-embeddedness where strong ties dominate, and so privilege certain groups while effectively excluding others.

At the individual level, trust shows its dark sides in the form of relational inertia, blind trust and over-trusting behaviour. In a low-trust context, personal trust helps entrepreneurs to cope with institutional deficiencies, as has been shown in the previous section. However, it also restricts business development if entrepreneurs do not (dare to) go beyond a circle of trusted and known business partners (e.g. Welter and Smallbone, 2011; Smallbone and Welter, 2009a), instead relying on their old and trusted ties. Batjargal (2006) illustrates a more complex picture, showing that in Russia such relational inertia fosters improved business performance for those entrepreneurs who already have extensive and resource-rich networks. In turbulent environments, it appears less risky for entrepreneurs to maintain old ties as long as they continue to provide (access to) resources. However, this contributes to lock-in effects, which ultimately impede entrepreneurship development at the macro level.

Several authors have analysed whether strong ties, in the form of trust between small business-owners and advisers (e.g. Bennett and Robson, 2005; Bennett and Smith, 2004; Dyer and Ross, 2007), can result in 'ties that blind' (Kautonen et al., 2010). Kautonen et al. conclude that business owners tend to disregard the lower performance of professional advisers in strong ties – that is, trust-based personal relationships – although they do concede that further research is needed into longer-term effects on business performance. Zahra et al. (2006) draw attention to the downside effects of trust in corporate entrepreneurship, including lock-ins, over-confidence and the lack of

effective controls due to over-reliance on trust. They highlight the complex links between relational trust, which requires personal relations to develop, and malfeasant behaviour, which could result from too much relational trust (Granovetter, 1985). In this regard, Goel and Karri (2006) argue that over-trust may be part of the overall risk that entrepreneurs assume in new venture creation, suggesting that entrepreneurial behaviour might affect trust on a general level, if over-trusting 'by a population of entrepreneurs could make trusting others relatively unconditionally a cultural norm and isolate people who violate this collective norm' (Goel and Karri, 2006: 489). They also suggest that entrepreneurs deliberately over-trust to create resources, and that by using effectual logic, entrepreneurs trivialize the risk inherent in (over)-trusting to achieve non-trivial benefits (Karri and Goel, 2008); however, Sarasvathy and Dew (2008) refute the link to effectual logic, emphasizing that it neither predicts nor assumes trust. Thus, both 'enormous trust and enormous malfeasance then may follow from personal relations' (Granovetter, 1985: 62). This indicates the need for trust-related entrepreneurship research to acknowledge both the bright and dark sides of trust, instead of over-optimistically assuming a generally positive role. Moreover, this also hints at complex interactions between trust and other mechanisms, such as control, for coordinating entrepreneurial relationships.

### *Trust is good, control is better? The trust/control duality*

Williamson (1993) challenges the tendency to idealise trust-based relationships when he states that within business relationships, it is not a case of personal trust but rather 'calculated risk'. As such, an entrepreneur calculates the costs and rewards of business partners acting in a non-trustworthy way. This accords with March and Olsen's suggestion that:

The core idea of trust is that it is not based on an expectation of its justification. When trust is justified by expectations of positive reciprocal consequences, it is simply another version of economic exchange. (1989: 27)

Management research has demonstrated that a duality exists (e.g. Bachmann, 2001; Bijlsma-Frankema and Costa, 2005; Das and Teng, 1998; Möllering, 2005; Sitkin and George, 2005), emphasizing that in relation to trust and distrust, the individuals involved are able to 'hold simultaneously different views of each other' (Lewicki et al., 1998: 442). Related studies focus mainly on the interplay of contracts (as a measure for control) and trust. For example, for Dutch entrepreneurial firms backed by venture capitalists, Strätling et al. (2011) found that entrepreneurs valued some kind of monitoring, but also that trust in their venture capitalists decreased because of a high level of formal contracts, demonstrating the fragile nature of trust-control relationships. For business consultants, Bennett and Robson (2004) compare the use of legal contracts and personal trust, showing that a higher reliance on trust alone is associated with lower levels of client impact and satisfaction, while a combination of trust and contracts fosters higher levels of client impact and satisfaction in the advisory relationship. Şengün and Nazli Wasti (2009) shed light on the relation between trust and different types of control mechanisms by analysing buyer-supplier relationships. They show that trust and social control are positively related, and that trust and output control are negatively related and substitutive. However, it is not so much social control but more institutional trust: namely, trust that is generated through 'common values and mutual understanding' (Şengün and Nazli Wasti, 2009: 44) that was analysed in their research thus, indicating the dual nature not only of trust and control, but also institutional and personal trust.

**Table 2.** Interdependencies of trust and control across trust contexts

| Function of trust in relation to control | Complement  | Substitute   |
|--|---|--|
| High-trust contexts:                     |   |  |
| Institutional trust                      | Institutional trust complements legal regulations (control at rgw macro level) and functions as an informal, culturally-based sanctioning mechanism | Institutional trust can substitute for personal trust in business relationships if entrepreneurs prefer control instead of trust   |
| Personal trust                           | Complements institutional trust and control mechanisms, works as additional control mechanism at individual level (reputational and social control) | Can substitute for control mechanisms at the micro level if business partners forgo contracts  |
| Low-trust contexts:                      |   |  |
| Institutional trust                      | Not applicable  | Not applicable   |
| Personal trust                           | Not applicable  | Substitutes for lack of institutional trust and control mechanisms (legal sanctions), works as sanctioning mechanism, but does not imply less reliance on control in form of contracts |

In a duality perspective, trust and control are less distinct than is typically assumed (Bijlsma-Frankema and Costa, 2005). Möllering (2005) highlights the complex and recursive nature of the trust phenomenon, where duality ‘entails that trust and control each assume the existence of the other, refer to each other and create each other, but remain irreducible to each other’ (2005: 283). Here, the concept of embedded agency is drawn upon: this means that when forming expectations about the behaviour of others, the actor takes the inseparable influences of structure and agency into account. Consequently, the duality of trust and control depends on the context in which it occurs: it is visible at both the macro and micro levels and across forms of trust (Welter et al., 2008). Therefore, I suggest that it is not only the duality of trust and control (or distrust as an antecedent for control), but also of institutional and personal trust that needs to be considered. Consequently, trust and control as well as institutional and personal trust can simultaneously complement and substitute each other. Table 2 is an attempt to make sense of the complex interdependencies that exist between trust and control across different contexts and levels of trust.

Institutional and personal trust is always accompanied by sanctions: in other words, by control mechanisms. These include, for example, contractual provisions and legal enforcement at the macro level, and regulations within a profession, a loss of reputation for an entrepreneur at the micro level (Welter and Smallbone, 2006). An economy and its actors can rely on sanctions when ‘exchange relationships are clearly delimited, the level of uncertainty is low, and enforcement is easy’ (Humphrey and Schmitz, 1998: 37). Where a rule of law exists, institutional trust helps entrepreneurs to take risks that are protected through institutional sanctions and guarantees. For example, in high-trust contexts, the successful operation of the legal and regulatory framework is based partly on the trust that individuals have in the reliability of institutions, and in the application of any sanctions or penalties that need to be imposed. In this regard, institutional trust can complement the institutional framework and support the enforcement of laws and regulations (Table 2). On the one hand, institutional trust acts as quasi-control mechanism; and on the other, where

'transactions that are viable in an institutional environment that provides strong safeguards may be nonviable' (Williamson, 1993: 476) – that is, in contexts where institutional control and legal sanctions do not work (properly), levels of institutional trust may be low. In these circumstances, personal trust is said to substitute for low level of institutional trust, lack of formal control and deficiencies in the external business environment (Table 2).

The roles of trust and sanctions can be assumed to change as entrepreneurs move from simple transactions to more complex relationships, and from the early stages of venture development towards growing their businesses. It is suggested that it is never pure personal trust that triggers and dominates business relationships, neither, in stable business environments, is it only pure institutional trust, but also an element of control. There exists a dynamic and fragile interplay between institutional trust and legal sanctions, institutional and personal trust and between 'genuine' personal trust and control mechanisms which draws attention to the multidimensionality of trust and the question of how trust emerges.

### *How trust is built, destroyed and repaired*

How can cooperation occur if there is no personal trust at the beginning? Numerous models exist in the management literature (e.g. Bachmann and Inkpen, 2011; Lewicki and Bunker, 1996; Lewicki et al., 2006; McKnight et al., 1998; Zucker, 1986), but relatively few entrepreneurship studies have concentrated explicitly on how trust in entrepreneurship is built (e.g. Bergh et al., 2011; Neergaard and Ulhøi, 2006; Nguyen and Rose, 2009; Smith and Lohrke, 2008; Tillmar, 2006), sometimes examining trust-building as a quasi-automatic 'side-effect' in relation to social capital formation or network development (e.g. Audretsch et al., 2011; Jack et al., 2008; Mackinnon et al., 2004). This lack of focus on trust formation in entrepreneurship might be due partly to the fact that very few studies have undertaken the longitudinal work on trust required to adequately capture its processual nature (Welter and Alex, 2011).

Nooteboom (2002) distinguishes three major stages of building trust: first, control in the absence of trust; second, assessing trustworthiness and developing tolerance levels of trust; and third, widening these tolerance levels. These three stages may overlap and do not have to occur sequentially. In the control stage, partners either proceed step-by-step, or install safeguards based on their own interests because there is no genuine basis for trust. The relationship is unfamiliar, and so the business partners have to take some initial risk because only then 'is it possible for the trustee to demonstrate his or her trustworthiness' (Das and Teng, 1998: 503). In the second phase, knowledge and experience allow partners to assess their trustworthiness: thus experiences made during the relationship allow trust 'to take root' (Coriat and Guennif, 1998: 54). The link between experience and trust is recursive: experience may precede trust-building, but it also could be the result of trust within a relationship: nonetheless, 'in either case a trust-based relationship will only survive if it is supported by experience' (Coriat and Guennif, 1998: 54). In this stage, by setting tolerance levels for trust, entrepreneurs create some scope for trusting each other without giving up the control option, as has been illustrated in the example of cross-border entrepreneurship in Western and Eastern European border regions (Welter et al., 2008). Tolerance levels are widened in the third stage as a result of shared cognitive frames. It is here that personal trust may play a more important role, dominating in some relationships but not others, depending on the experiences of entrepreneurs, their familiarity with each other and the nature of their business partnership.

While Nooteboom (2002) emphasizes the role of control in initiating, building and sustaining trust, similar to Lewicki and Bunker (1996), Möllering argues that at the 'heart of the concept of

trust is the suspension of vulnerability and uncertainty (the leap of faith), which enables actors to have positive expectations of others' (2006: 191). It is pointed out that trust is something which can occur quasi-automatically, as every day 'we trust countless others without being able or required to perform any detailed reasoning about whether or not this is justified' (2006: 51). Similarly, McKnight et al. (1998) point out that trust can exist without previous experiences with the trustee, suggesting that individuals possess a disposition towards trust. How can the initial leap of faith occur in entrepreneurship? Individuals often revert to stereotyping, allowing them to cope with the unfamiliar, for example, when operating in an unknown country context. Luhmann refers to this process as 'familiarity breeding unfamiliarity' (2000a: 95), where symbols help to introduce the unfamiliar because they produce shared, taken-for-granted knowledge (Bachmann and Inkpen, 2011). In this regard, institutions allow for behavioural routines which also foster the emergence of trust.

However, Zaheer and Zaheer (2006) suggest that such stereotypes may result in trust asymmetries if transferred to all potential business partners in another environment, regardless of their individual behaviour. This, again, draws attention to the interplay of personal and institutional trust which cannot be easily separated when it comes to the formation of trust. Here, Rothstein (2005) points to 'social traps' which might prevent trust-building: these are evident in situations where mutual distrust prevents cooperation, and it is argued that the existence of universal and impartial political institutions, together with public policies which enhance social and economic equality, create trust. This also implies that trust can be socially constructed, emerging through individual and collective sense-making and interpretation (Lewis, 2008; Möllering, 2006). For example, in their study on the post-disaster recovery of a parish within New Orleans, Chamlee-Wright and Storr (2011) illustrate the link between collective narratives that show the parish as a close-knit community, and the related and subsequent recovery strategies adopted.

These processes of trust formation are not mutually exclusive. Rather, trust may be built through initial control, a 'leap of faith' or discursive processes, depending on the objectives and the extent of the risk involved that are likely to be associated with the nature and extent of the cooperation and its importance to the partners. For example, Fink and Kessler (2010) argue that it is self-commitment – in other words, the 'leap of faith' – which renders highly complex and uncertain transaction relationships such as research and development (R&D) cooperation possible. Moreover, processes of trust-building have to be interpreted within the context in which they occur, which draws attention back to the sources of trust. Trust-building may be facilitated in communities which have a common history, some common rules or other shared experiences (Lorenzen, 1998). Sometimes actors are trusted simply because they belong to the same community, which echoes the findings of the industrial district literature regarding the importance of localised 'unwritten' rules of conduct (Dei Ottati, 2004). Under such circumstances, it is cultural, sector and geographical proximity that fosters the emergence of trust.

Furthermore, there is an element of learning to the process of trust formation, where learning and trust may enhance or impede each other, although this relationship has received little attention so far in the entrepreneurship literature. For example, Bergh et al. (2011) draw attention to the different learning outcomes that entrepreneurs can achieve through building trust and understanding trust-building as antecedents to entrepreneurial learning. While trust might be required for entrepreneurial learning to occur, learning also can contribute to both personal trust and institutional trust. Based on experiences, individuals learn to trust each other as they become familiar with each other's competencies, motivations and sense of fairness (Bowey and Easton, 2007; Welter et al., 2008), and over time they also learn to put trust in the institutional environment.

Trust is volatile and fragile – it is easily destroyed. However, surprisingly little is known about the exact mechanism of how trust in (entrepreneurial) relationships is destroyed and repaired (Kim et al., 2009; Kramer and Lewicki, 2010). Trust violations may occur at the individual level, when a business partner (trustee) exploits a (partly) trust-based relationship and neglects to fulfil expectations. However, sometimes the suspicion that a trust breach might happen is sufficient to destroy it. Depending on the degree of control within a relationship and the respective institutional environment, the entrepreneur has different options: for example, claims can be enforced by legal action, although this in turn could further erode any remaining trust in the business partnership.

Can trust be repaired under such circumstances? One may assume that this depends on the willingness of the party whose trust was violated; it may be that renewal of trust is a more calculative decision process compared to its initial emergence, although the external environment, the level of business development and entrepreneurial experiences may play a moderating role in this regard. In any case, these questions require further research, thus suggesting interesting avenues for future trust research in the entrepreneurship field.

### **Outlook: the future of trust-related entrepreneurship research**

This article argues that trust is critical for entrepreneurship and has the potential to fulfil different roles; it can reduce some risks inherent within entrepreneurial activities and act as a governing mechanism for various entrepreneurial relationships. Conceptually, the nature of trust is complex and multidimensional, it occurs at the micro and macro levels: in other words, between persons, organisations and institutions. Trust also stems from emotions, experiences and characteristics as well as from codified norms and rules; institutional and personal trust, as well as trust and control, co-evolve and coexist, sometimes substituting for each other, sometimes complementing each other. Trust emerges in different ways, for example through deliberate actions and calculations, a ‘leap of faith’ or as a result of collective and individual sense-making. This article also highlights the influence of social, spatial and institutional contexts on trust which are not always a positive influence upon entrepreneurship. In addition, trust obviously influences entrepreneurship, but entrepreneurial behaviour also has an impact upon levels of personal and institutional trust, as has been illustrated in the case of post-socialist economies. In these contexts, vicious behavioural circles have contributed to reinforcing negative public attitudes towards entrepreneurs and prevented the institutional reforms required to foster institutional trust.

Furthermore, this article also identifies fundamental gaps in the extant literature, suggesting interesting avenues for future research. Generally, future studies on trust in entrepreneurship should commence from a more critical perspective, acknowledging the bright and dark sides of trust, its duality in relation to control mechanisms, the interdependencies between forms of trust and the different contexts in which it occurs. Bachmann (2011) makes a case for more macro-level trust research, arguing that too little is known about how institutions influence and foster (institutional) trust, and that too many studies have focused on researching trust at the micro level. I suggest reframing his call for the entrepreneurship field. We do not need more macro-level trust studies as such, but rather multi-level studies which analyse the duality of trust within and across different contexts, in particular with a process perspective, and which explore the recursive links between trust and entrepreneurship. Some of the research questions related to this could be as follows.

- The processes of trust formation, breaking and repairing in relation to the nature of entrepreneurship – what exactly triggers trust formation, breaking and repair in relation to the nature of different entrepreneurial activities? For example, does this differ for informal and illegal entrepreneurship? Can we identify the social, spatial and institutional contexts and/or entrepreneurial behaviour, i.e. the conditions, under which trust is more easily formed, destroyed or repaired?
- The contextual aspects of dark and bright sides of trust – do these differ, for example, across cultures, or is ‘trust the same no matter the context’ (Dietz, 2011: 219)?
- Trust formation in relation to trust duality and contexts – what are the conditions and contexts in which personal trust evolves into institutional trust? How is trust shaped in contexts where institutions are weak and remain weak, where corruption is a normal way of doing business? Which contextual aspects influence the trust/control duality and the interplay of trust and control mechanisms?
- Entrepreneurship and trust in relation to institutional change – where is the ‘tipping point’ when vicious behavioural circles develop into virtuous circles? Recent work on institutional entrepreneurship (Pacheco et al., 2010) and institutional change agents (Welter and Smallbone, 2011) might offer some useful perspectives for the general trust literature in this regard.

All of these suggestions have implications for how trust is explored and analysed within the entrepreneurship field, suggesting a need for more longitudinal work as well as comparative studies on trusting entrepreneurial behaviour and processes across different contexts, in order to recontextualise the concept of trust (Anderson et al., 2010; Hjorth and Johannisson, 2003). Ultimately, as this initial list of potential research questions illustrates, rather than just stating their existence and importance for entrepreneurial activities, greater insight into the various facets of trust, and their complex and recursive contextualised interactions, is urgently required.

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