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New venture creation as establishing stakeholder relationships: A trust-based perspective

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ABSTRACT

The importance of trust in numerous dyadic relationships (e.g., romantic relationships, co-workers) is well documented, yet trust within the context of entrepreneurship—specifically, enabling the emergence of new ventures—is largely unexplored. In particular, we know very little about how entrepreneurs use trust to *establish* each of the unique strategic alliances they must form with stakeholders to enable a new venture to enter the market. We present a theory-based approach, developed from existing literature on trust, to specify multiple stakeholder-oriented insights related to trust that may facilitate new venture creation. In sum, during venture initiation, stakeholders require entrepreneurs to convey nuanced interpersonal messages to develop, initially, dimensions of trust – ability, benevolence, and integrity – to effectively build these relationships that enable successful new firm emergence.

1. Introduction

Stakeholder theory tells us that, to be successful, firms must engage with a broad group of stakeholders to build trusting relationships—and, specifically, theory here imparts that "managing for stakeholders," is a critical component for value creation in business (Harrison et al., 2010:59). Extant work in the domain of stakeholder theory is particularly applicable to existing firms, with established relationships and resources, which are seeking to build competitive advantage and enhance reciprocal, and effective, stakeholder relationships (Agle et al., 1999; Bosse et al., 2009; Mitchell et al., 1997). However, applying this line of thinking—managing for stakeholders—is problematic in the context of new venture creation.

Establishing trusting relationships with key stakeholders who provide the resources needed for firm creation is a defining role of entrepreneurs (Frese et al., 2016; Maxwell and Lévesque, 2014; Pollack and Bosse, 2014; Shepherd and Zacharakis, 2001; Vandekerckhove and Dentchev, 2005). But, the nuance not captured by extant stakeholder theory is that entrepreneurs are prospecting for the very first, initial, engagement in a relationship with a stakeholder. The present work provides essential respecifications to the stakeholder theory literature and the literature on trust to accommodate the context of nascent new ventures. We make the case that stakeholders and trust establishment must be examined differently in nascent ventures—where no relationships or resources exist—relative to established firms that typically do have existing relationships and resources.

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2. Stakeholders and trust in the new venture creation context

From a stakeholder theory perspective, multiple key relationships need to be established and nurtured for a new venture to initially emerge and, subsequently, survive as well as thrive. In the early, nascent, stages of the entrepreneurial lifespan—where we focus—cash flow is the most important issue and, thus, the two stakeholders who typically matter most are (1) customers, and (2) financiers (Rutherford and Buller, 2007). Soon, thereafter, employees and other stakeholders like suppliers become a priority (Rutherford and Buller, 2007). With relevance to building critical relationships, we know that the establishment of trust is a critical factor personally as well as professionally (Howorth and Moro, 2006; Schoorman et al., 2007; Welter and Smallbone, 2006). However, in the domain of entrepreneurship, we know very little about trust among key stakeholders (Cherry, 2014).

In fact, minimal progress has been made, theoretically or empirically, since the 2006 special issue of *Entrepreneurship Theory and Practice* focused on the role of trust in entrepreneurial activities. A conclusion of those articles was that trust seemed to be a potentially important factor in established organizations, yet there had been little attempt to integrate trust into the domain of entrepreneurship. Since 2006, scattered research has considered how entrepreneurs may seek to develop interfirm trust to build collaborative relationships (Nguyen and Rose, 2009) or within the supply chain, such as in relationships with franchisees (Davies et al., 2011). We do know that a trusting relationship may influence the choice of venture versus angel capital (Fairchild, 2011). Further, some research has focused on the importance of social trust (Ding et al., 2015), and guanxi ties (Tan et al., 2009) in transitional economies. Unfortunately, though, after more than a decade there is still a notable lack of focus on trust, and specifically on how to build trust, in the context of entrepreneurship (Cherry, 2014).

We surmise that there are two primary reasons for this predicament. First, research-based models of trust applied to the domain of entrepreneurship are rare. This is likely due to the fact that most trust models have been developed in the context of existing longer-term relationships. Hence, it is problematic to generalize these models to trust in entrepreneurship, and more specifically the new venture creation processes. The second reason for the dearth of studies related to trust in new venture creation is the myriad of stakeholder types. In personal relationships, or with co-workers, it is typically very clear with whom the dyadic trust bond is made. Whereas, in the new venture creation context, the basis for the dyadic trust-based relationship is much harder to delineate (e.g., customers, financiers, employees, suppliers). In the following section, we apply a research-based trust model to examine critical stakeholder relationships in the context of new business startups, where no such current relationships exist.

3. Trust and factors of perceived trustworthiness

We use the integrative model of organizational trust developed by Mayer et al. (1995) as the foundation for evaluating how entrepreneurs can create the levels of trust needed with critical stakeholders in a new business startup. Integrating existing literatures, Mayer et al. developed a model to represent the building and maintenance of trust relationships such that decreased perceived risks by the parties would lead to more risk taking by both parties in the relationship. This focus is important as our emphasis is on establishing strategic relationships in new ventures, an environment characterized by risk and uncertainty.

This specific model of trust incorporates factors involving the trustor (in our case, critical stakeholders) and perceptual factors involving the trustee (in our case, the entrepreneur) that are hypothesized to lead to trust in ongoing social exchanges. Our approach focuses on what might enable a trustor to engage with a trustee—here, Mayer et al. identify the perceptual factor of trustor propensity, as well as a trustees' ability, benevolence, and integrity as antecedents.

Propensity to trust is identified as a relatively stable within-party factor and influences the trustor's level of trust in the trustee *prior* to gathering or analyzing data on the trustee. *Ability* refers to the knowledge, skills and competencies within a domain that allow a party to have influence in that domain. Domain specificity is important in establishing trust in ability. Trust in ability in one domain (e.g., technical experience) does not transfer to trust in other domains (e.g., working with customers). *Benevolence* is the degree to which the trustor perceives the trustee will want to do good/create benefits for the trustor, even in the absence of short-term rewards/outcomes for the trustee. Unlike ability, this trustee characteristic is not situation specific, rather it is a generalized perception of benevolence across a range of trustee actions. *Integrity* refers to the trustor's perception that the trustee's behavior is influenced by a set of principles or guidelines that the trustor finds acceptable. Similar to benevolence, this perceived trust is generalizable across a range of domains or situations.

3.1. Attribution theory and propositions regarding trust in new venture creation

Within the Mayer et al. trust framework, the *attributes* of the trustee are important to the level of trust shown by the trustor. And, it is the trustor's *perceptions* of these trustee characteristics that are most important. Based on attribution theory (Fiske and Taylor, 1991), we know that perceived trust is enhanced when the trustor perceives the factors of perceived trustworthiness (ability, integrity, benevolence) as being due to factors internal to the trustee, rather than situationally or environmentally determined. Attribution theory posits that individuals assign/ascribe causality to events that they observe as part of 'sense making' needed to determine how to respond to the event. Internal attributions are assigned a cause that is internal or under control (e.g., effort) of the person (in our case, the trustee), while external attributions are assigned a cause not under control (e.g., situational or environmental factors) of the person/trustee. The model that we have used to develop our propositions recognizes that these ongoing attributions are affected by the outcomes of the behaviors of both the trustor and the trustee. These outcomes provide a feedback loop for subsequent trust perceptions. After taking a risk with a trustee, observed outcomes will affect the trustor's perception of trustee trustworthiness. In the case of positive outcomes, perceptions of trustworthiness are verified and strengthened over time. In the case