

Thesis  
2950

**EXPLORING INTERPERSONAL TRUST IN THE SMALL BUSINESS**

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## *Abstract*

This thesis explores the influences of different types of interpersonal trust on the development of the business enterprise, and builds in part on the author's MSc dissertation, which found interpersonal trust to play a key part in the decision making process. A key feature of the research is a focus on the notion of becoming, rather than that of being; of change over static presence. The research acknowledges the basic truth of the statement 'only perception gives knowledge of things' and therefore adopts a broadly interpretative approach throughout. This is in keeping with the subjective nature of the trust concept. The thesis discusses the nature of trust from a primarily sociological standpoint and develops its models mainly from discussions of trust in the management and organization literature. The field studies, while conforming to these epistemological and ontological presuppositions, utilise three different methods: semi-structured, taped interviews; longitudinal participant observation case study; and verbal protocol analysis, in order to apply and refine the theory of trust developed and thereby come to an understanding of the role and importance of interpersonal trust in the business enterprise.

The thesis finds that interpersonal situational trust is central to small business development, and may be usefully construed as an *a posteriori* tacit knowledge which the trusting party uses in order to fill gaps in his explicit knowledge of a situation, thereby reducing its complexity and enabling co-operation. The link between trust and co-operation is teased out, and it is suggested that trust overcomes an individual's co-operation threshold for a situation, as determined by a set of identifiable co-operation criteria, enabling co-operative behaviour on the part of the individual. The combination of co-operation threshold and trust level outcomes for each of the individuals in the situation is thus said to determine whether or not co-operation occurs between them. It is argued, therefore, that trust is a prerequisite for co-operation, and that the stronger, more resilient the situational trust, the more likely it is that co-operation will occur.

The thesis finds that a useful distinction may be drawn between trust which is based on familiarity with the trusted party and trust which is based on familiarity with the situation in which the trusting interaction occurs. It finds that the development of the latter type, termed Comprehensible Situational Cue Reliance-Based Trust is perhaps of most importance with regard to the effect of trust on business development. The thesis applies a process theory derived from the work of the metaphysician Alfred North Whitehead to the theory of trust which it utilises, and finds that interpersonal situational trust may be considered as 'an actual occasion in concrescence', thereby offering the potential for a philosophical reconceptualisation of trust in terms of a process metaphysic, instead of the more static philosophical presuppositions which have historically tended to underpin its theoretical development. The thesis concludes by suggesting that trust is the medium through which the entrepreneur is able to create and extract value from the environment, emphasises the indicative (as opposed to definitive) nature of its exploration, and identifies a number of areas for further research, including matched international comparisons of businesses in order to verify the applicability of the theories and models which it develops.

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As is always the case with opportunities for dedication such as this, one is left struggling with the choice. Parents perhaps? For their endless support in difficult times. Or special friends? For ensuring time is spent relaxing away from the books. My choice is straightforward. Professor Michael G. Scott, my supervisor and friend, and adviser throughout the whole of my university career, died of cancer four days after the oral examination of this thesis. There is much that I could say about Mike, but it would be no great insight for those who knew the man well. All that need be said here, for others, is that the finest measure of a scholar's contribution lies not in the quantity of his publications but in the quality of his influence.

*In memoriam*

Michael G. Scott (1938-1998)

**Indian Prayer**

(ANON: traditional)

When I am dead  
Cry for me a little  
Think of me sometimes  
But not too much.  
As I was in life  
Think of me now and again  
At some moments it's pleasant to recall  
But not for long.  
Leave me in peace  
And I shall leave you in peace  
And while you live  
Let your thoughts be with the living.

## *Preface*

The title of this thesis, *Exploring Interpersonal Trust in the Small Business*, is an accurate description of the intention and content of the research which it reports. While there has been an increasing interest in the role of trust in the published academic literature on business during the course of the research, and especially in the last four months, it remains fair to say that the theoretical concept of trust (i.e. one which views trust as more than 'high' or 'low' or a simple social lubricant) remains relatively under-studied. This is so in two respects. Firstly, when compared with other more established areas of doctoral research in departments of management and organization, such as strategy, organization theory and human resource management. Secondly, with regard to the operation and effect of trust in the small business setting, since the majority of previous research into trust has confined itself to settings within the large organization. In summary, the thesis seeks to a) map out the determinants and existence of trust in the small business, and b) investigate trust's role in the development of the small business at the level of interpersonal interaction. It is, however, by no means intended to be an objective, definitive study. I am here reminded of Whitehead's caution, that "In philosophical discussion, the merest hint of dogmatic certainty as to finality of statement is an exhibition of folly" ([1929] 1978:xiv). The subjective nature of trust itself is such that any research can only ever be indicative; it is the writer's personal exploration of essentially uncharted territory.

The small business, as with any business, is a 'company' of individuals engaged in social interaction for a variety of purposes, one of which may be economic profit, another of which may be social profit. In taking trust as the subject of study I am aware that it is only one of many ways of looking at such social interactions and generating meaningful interpretation. Much of what is in the following pages may be interpreted in different - though not contradictory - ways in the light of other perspectives. My argument is that an understanding of the impact of trust, which is a pre-requisite of human interactions (regardless of whether it is apparently 'present' or 'absent'), provides an essential keystone

for appreciating the complexity of those interactions, whatever interpretive approaches are subsequently used for the further unpicking of that complexity. An understanding (not *the* understanding) of trust is the essential 'starter for ten'.

As anyone who is connected with doctoral research is aware, a PhD is a process of conversation and learning. A process which does not stop with the final punctuation mark on the last page. Its authors comprise three groups of people. The first authors, and the most important in my opinion, are everyone who is engaged in the conversations that build it, for without them it could not exist. The second authors are those who read it, during which it is reconstituted and developed, and the real value added to it. The last author, the student, is only the one who structures, conducts and writes it, and learns most from that process. In this respect a number of 'authors', both within academia and outside it, deserve mention as they have inspired and sustained me with their thoughts, time and consideration over the past three years: Kweku Ampiah, Max Boisot, Roger Buckland, Murray Clark, Robert Cooper, Keri Davies, Sarah Drakopoulou, Ian Glover, Uwe Haiss, Christina Hartshorne, Gillian Hogg, Mike Hughes, Sarah Jack, Bill Keogh, Sarath Kodithuwakku, Claire Leitch, Brian Loasby, Colin Mason, Eric Matthews, Andrew McAuley, Melinda McLelland, Hans Meurer, Rebecca Newton, Andrew Poxon, Peter Rosa and Graeme Simpson. Of special importance, however, are: Alistair Anderson, Robert Chia, Stephen Doughty, Pat Graham, the three examiners Sue Birley, Harry Sapienza and Paul Westhead, my two supervisors Simon Harris and Mike Scott, Steve Marsh, and above all Richard T. Harrison; without their learned insight and continuous encouragement it is fair to say the work would never have been completed. I have tried to do justice to all their efforts.

During the course of the research, a number of these individuals gave me the opportunity, and responsibility, of co-authoring conference papers, journal articles and edited book contributions. These fall into two categories, those related to the topic of the thesis, and those not related to the thesis but undertaken as part of the doctoral process. Each of the papers therefore makes a contribution to the research; they are therefore listed separately as Appendix 7 and referred to in the body of the text where appropriate. With regard to those papers that relate directly to the PhD, each represented uniquely

beneficial opportunities to 'air' ideas *already developed* for the thesis, while the work that went into the others added an invaluable part to my academic training.

In addition to the co-authored research, I have also had the honour of being able to present much of the contents of the thesis as sole-authored papers at conferences and symposia. The main substance of Chapter I was delivered as "Exploring Interpersonal Trust in the Small Firm: Trust as a Type of Management Knowledge" at the Entrepreneurship Research Symposium, University of Stirling, November 1995. Parts of Chapter III were delivered along with Chapter IV as "Exploring Interpersonal Trust in the Small Firm: Some Evidence from SMEs in Scotland" at the Irish Entrepreneurship Research Conference, Belfast, November 1996. Chapter V was delivered as "Exploring Interpersonal Trust in the Small Firm: Theoretical Implications from the First Stage Study" at the Second Entrepreneurship Research Symposium, University of Stirling, February 1997. Parts of Chapter VI were delivered as "The Effectiveness of Participant Observation Studies in the Research of Processual Phenomena Affecting Management and Organizations: Findings from the Study of Interpersonal Trust Relations in a Scottish SME" at the Aberdeen Management Research Symposium, University of Aberdeen, March 1997. I am indebted to the delegates of all the gatherings at which the work of the past three years has been presented, and have attempted to take best notice of comments and suggestions where appropriate.

A note on referencing and other conventions. For convenience, lists of references are provided at the end of each chapter and hold the following format: Author, Initial. (date) Title. [for journals] Journal Vol. and/or No. [for books] Publisher: Place Published. Page numbers of direct quotes and ascriptions from books are given in the text as (author, date:page), while general references to books and all journal citations are given in the text by author and date only. Page numbers for journal articles and edited book entries are given in the references, as pp.0-00. That said, some of these references were originally obtained through university photocopy package systems which omitted the original page numbering; it has unfortunately proved impossible, in spite of modern on-line electronic listings, to

track them all down (I have counted about twenty such cases), for which my apologies. Although not altogether correct given its Greek origins, as a matter of personal preference wholistic is spelt with a 'w' throughout. Without the 'w', the word would come to mean that its referent is incomplete (hole), the opposite of its true meaning (whole). Lastly, although not politically correct, in order to avoid the clumsiness of 'his/her' and 's/he', and the inaccurate and impersonal variants of 'it', unless expressly referring to a particular individual I have also adopted the traditional convention of the use of masculine pronouns to collectively describe both sexes throughout.

A written document can only represent the PhD. It can never *be* the PhD. If the PhD must exist 'close' to the document, then it exists not in the written word but in the act of writing, where the act of writing itself generates only a hazy synthesis of the conversations that enable it. The document is an arrested moment which is, at best, a parenthetical insertion in the student's ongoing study. Despite all the kind assistance, I remain solely responsible for all facts and interpretations in this analysis.

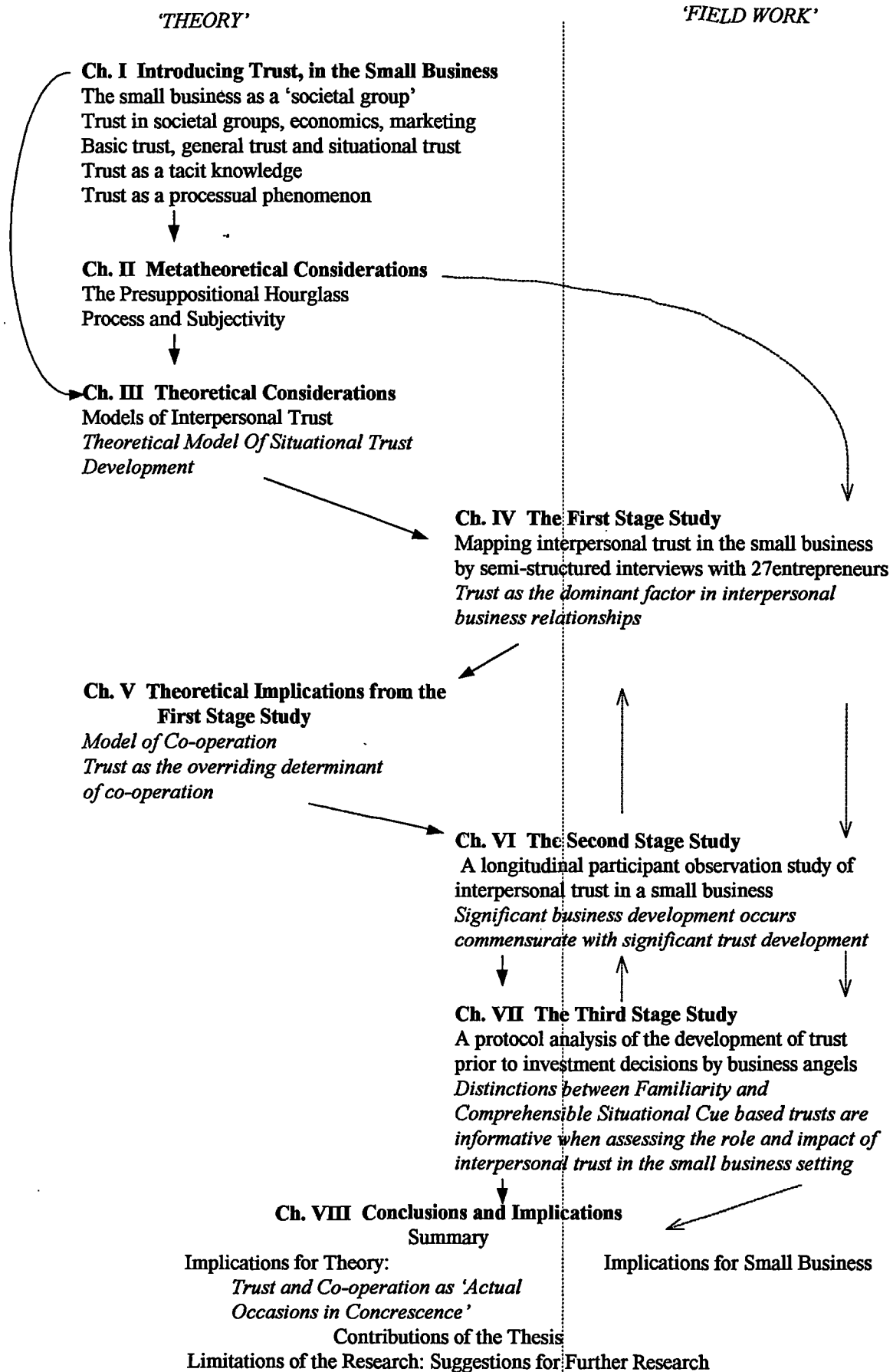
MARK R. DIBBEN

Old Aberdeen

October, 1997



## The Structure of the Thesis



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*Those of you who enjoy messing around in sailboats - or, what I find is cheaper and dryer, reading about other people messing around in sailboats - will be aware of a literary genre in which the author describes, sometimes in lurid detail, one or other of the things that can go wrong at sea, and then offers soothing advice about how to cope with the kind of crisis he has conjured up. I remember once coming across, and being particularly impressed by, a passage that went as follows: 'What should you do,' the author asked rhetorically, 'if you are in a situation where there is a strong wind, a lee shore, and your boat doesn't have an auxiliary engine?' Reply: 'Look, just stay out of situations where there's a strong wind and a lee shore and your boat doesn't have an auxiliary engine.' I offer this good council as a sort of epigraph to the text that follows. It may be that I have gotten myself into a philosophical situation about which all that can helpfully be said is that I ought not to have gotten myself into it. What I'll be doing in the course of these lectures is trying to convince you - or, at a minimum, reassure me - that that isn't so.*

Jerry Fodor: *The Elm and the Expert* (1995)



*Theory*

# Chapter I

## *Introducing Trust, in the Small Business*

*There is not a sentence which adequately states its own meaning. There is always a background of presupposition which defies analysis by reason of its infinitude.*

Alfred North Whitehead ([1941] 1991)

The importance of social interaction in human activity has been explicitly or implicitly acknowledged by various disciplines in the social sciences to such an extent Hirshleifer has argued that, rather than there being many social sciences concerned with investigations into the acquisition of economic wealth and its consequences, such as economics, management studies, marketing and so on, "there is only one social science" (Hirshleifer, 1985:53, in Landa, 1994). This is because it is "impossible to carve a distinct territory [for each] bordering upon but separated from other social disciplines" (ibid). This, in turn, is because human interaction is the primary source of economic activity. Thus, as Morgan (1990:72) notes, explanations of business organizations that fail to consider "the precarious nature of the production and reproduction of social relationships have made a fundamental error in their starting point."

The increasing recognition of the place of social relationships in explanations of business activity may be seen, for example, in strategy by a "striking change in the direction of a greater concern for a wholistic understanding" (Pleitner, 1989) and an emphasis on individual cognition and uncertainty, as reflected for example in research into strategic decision making (e.g. Barr et al, 1992; Brytting, 1990 and Huff, 1990). The marketing discipline has also drawn upon theories of social exchange in order to understand the complexity of both the relationships between buyers and sellers (e.g. Robicheaux, 1975; Dwyer et al, 1987 and Smith and Barclay, 1997) and of internal markets, in the interests first and

foremost of improving product and service quality (Mitchell, 1992), thereby bringing the buyer-seller exchange process to the internal workings of the firm (Thompson, 1990:2), as well as implying that social exchange is therefore applicable not only to external business relationships but to internal business relationships also (Christopher, 1993:30 and Morgan and Hunt, 1994). Perhaps most strikingly, however, is the current move toward the explicit study of the impact of interpersonal relationships on markets and firms in economics. As Landa argues, there is a need even within economics to assign a "a central role to the... entrepreneur [who links] producers and final consumers indirectly together in complex networks of exchanges", especially since neo-classical economics ignores the non-price exchange that lies at the bottom of economic activity (1994:5; see also Loasby 1994, 1996a and 1996b).

It follows that implicit in a continuing focus within entrepreneurship research itself on such topics as new venture team creation (e.g. Kamm, 1992 and Cooney and Bygrave, 1997), reasons leading to new firm formation (e.g. Shane et al, 1991 and Alsos and Kolvereid, 1997), and the role of personal networks in the entrepreneurial process (e.g. Dubuni and Aldrich, 1991, and Dennis and Birley, 1997), is an acknowledgement that economic and business relationships between individuals are embedded in the social interaction that takes place between those individuals (Loasby, 1991:83-86 and Larson, 1992). Much work on the sociology of decision making concerns the influence on the individual of the group (Bennis, 1973:6 and Harrison, 1975:297), which may be defined as "a number of people who come together... in quest of an attainable level of interpersonal consensus...that will ensure the attainment of a common purpose" (Homans, 1965:179). The link between a group of individuals and a 'society' becomes clear with the addition of Frisby and Sayer's definition of a society as "the network of shared understandings, the cognitive and communicative community which makes the actions of individuals... meaningful to themselves and others" (1986:75), and of Van den Berghe's definition of a society as "a group of conspecifics bounded by a zone of much less frequent interactions than [that] which prevails between its members" (Van den Berghe, 1980:77). Furthermore, both these definitions also serve as meaningful descriptions of a small business. In this respect, therefore, the small business may usefully be regarded as a mini-society, or societal group, in which meaningful interpersonal interactions and exchange take place in order to achieve the aims of the business and/or individuals within it.

Exchange between individuals, as facilitated by interpersonal interaction, is recognised as one of the driving forces behind group behaviour, and its striving for mutual benefit - "the salient reason for the formation of interpersonal relationships" - (Bennis, 1973:496). Exchange has its basis in "mutual dependence of sentiment, activity and interaction" (Homans, 1965:181), leading to "reciprocal obligations that generate trust between... individuals with common... interests" (Blau, 1964:88,113). These common interests, in turn, depend on similar motivations, aspirations, goal congruence, and the relative power and roles of the individuals (Gergen, 1974:90). The combination of these elements influencing exchange relationships are said to determine the investments of both individuals in the relationship, and the corresponding rewards for each of them: Where one's investments are matched by the rewards gained, a feeling of "justice" is derived, and vice-versa (Homans, 1958 and Gahagan, 1975:107). As a result, the individual "weighs up the various rewards against the cost and settles for the alternative which produces the best estimated outcome" (Gahagan, 1975:72), and decides to join or remain in a group. Thus, social exchange "plausibly accounts for the emergence, stability and satisfaction of groups" (ibid:75), a point recognised in an increasing literature "that is responsive to management as a social phenomenon meriting serious critical examination" (Alvesson and Willmott, 1992:1).

At the heart of all social interaction and exchange lies trust. It has been described in sociology as "a crucial generic phenomenon... directly linked to achieving an early sense of ontological security..., the 'protective cocoon' which stands guard over the self in its dealings with everyday reality" (Giddens, 1991; see also Gellner, 1990), and in economics as a precondition for rational choice (Loasby, 1997). The importance of trust in society, industry, indeed all human activity, is widely recognised. Deutsch has suggested that "if we examine the writings of learned men throughout the ages we find that, while they often disagreed whether to trust or not, they did agree that the topic was important" (Deutsch, 1973:143) and his point is borne out with further study of learned scholars. John Stuart Mill for example, writing in 1891, argued that "the advantage to mankind of being able to trust one another penetrates into every crevice and cranny of human life" (in Sako, 1995). Another philosopher, William James, noted that "a

social organism of any sort whatever, large or small, is what it is because each member proceeds to his own duty with a trust that the other members will simultaneously do theirs" (James, 1903:24). More recently, Casson (1990) suggests that "mutual trust cements the production system together..., allowing co-ordination to proceed without the expense of formal administrative procedures or time-consuming negotiations", and Lagenspetz (1992) argues that "trust in our fellow people is needed if anything else is to matter at all". Similarly, Gambetta (1990:1) argues that "the importance of trust pervades the most diverse situations where co-operation is at one and the same time a vital and a fragile commodity" (Gambetta, 1990), while Bok suggests that "whatever happens to human beings, trust is the atmosphere in which it happens" (Bok, 1978:31, in Baier, 1986). In sum, "there is no single variable which so thoroughly influences interpersonal and group behaviour as does trust" (Golembiewski and McConkie, 1975:31).

The purpose of this thesis is to explore the role and impact of interpersonal trust in the small business, and so unpack the complexity of what appears at first to be a relatively simple and commonplace, if esoteric, phenomenon. The selection of the small business as a valid domain within which to conduct an exploration of trust comes with both a *bona fide* research argument and a practical argument. In spite of the importance of trust in social interaction, the role of trust in the small business remains relatively understudied (Mayer et al, 1995). This is especially so, considering the acknowledged importance of social interaction in small business development and entrepreneurial creativity; it therefore amounts to a legitimate and interesting subject for study. In addition, however, the small business provides a relatively easy setting in which to carry out a study of trust, since it is devoid of many of the bureaucratic structures that enable the strategic actors (i.e. individuals capable of exercising significant influence with regard to future business development) of larger organizations to intentionally or unintentionally surround themselves in "the cloak of institutionalisation" (Harris and Dibben, 1995) that often renders meaningful access difficult, if not impossible. That is, in the larger organization, interpersonal interactions "are obscured... by the formal location of objective authority in various organization positions" (Barnard, 1938, in Castles, 1971:33-34), such that "the institution posits that actions of type X will be performed by agents of type X..., setting up predefined patterns of conduct..."

(Berger, 1981:73-74). This is not the case in the small business where, generally speaking, lines of communication and decision are shorter and task delineation is less formalised, rendering them “non-institutions” (Dibben and Scott, 1995). In short, the study with which this thesis concerns itself - a study of key interpersonal trusting relationships between strategic actors<sup>1</sup>, and hence of the role and effect of trust in the particular social setting considered - is far easier in the small business than in the large business. Indeed, a study of trust is, if anything, made easier still by the often impending sense of crisis that accompanies much dynamic small business activity (Dibben, 1994), since this is readily acknowledged as a trust intensifier (but not a distorter; see Mishra 1996 and Chapter III below for a discussion).

It will be clear, then, that this thesis is primarily about trust; small business, as a societal group, is the vehicle for that illustration. The primary contribution of the thesis is in the development of an operationalisable theory of interpersonal trust, which is derived and then refined by its application to various small businesses and small business scenarios. In fact, the thesis has already said what it is going to say, by way of introduction, about the small business itself, and will only pick up on salient points regarding small business research where necessary along the way. In adopting this approach the thesis relies on a prior observation discussed in Harrison and Dibben (1996), that Schumpeter made his major contributions to entrepreneurship not by studying entrepreneurship *per se*, but rather by studying economics. This thesis takes a similar line, namely that while not focusing on the small business or entrepreneurship in the first instance, it is hoped that the research reported here might, as a consequence of its exploration of trust, be able to contribute in some way to that body of entrepreneurship literature examining social factors contributing to small business development.

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<sup>1</sup> It should of course be noted that only one of the strategic actors in a small business is 'the entrepreneur'. There are a number of points to consider here. First, there may be more than one entrepreneur involved with any one business, and vice-versa. Second, it is reasonable to suggest that a number of the key interpersonal relationships affecting any small business will involve strategic actors other than the entrepreneur(s) - as subsequent chapters will indicate. Third, it is however reasonable to suggest that the entrepreneur(s) will be involved in a majority of those interpersonal relationships affecting the small business, by reason of his/their role in it - as subsequent chapters will also indicate. Fourth, following from this, while the thesis therefore tends to concentrate on trust relationships involving particular entrepreneurs in particular businesses, this does *not* mean that it subscribes to the idea that 'one entrepreneur equals one business, and one business equals one entrepreneur'; if anything, the thesis demonstrates the fallacy of simplistic statements such as this.

Having already discussed the importance of trust in economics, society, societal groups, and interpersonal exchange, it follows that the purpose of what remains of this chapter is to provide what amounts to 'a short course on trust'. This will purposely avoid a detailed discussion of much of the work carried out in philosophy on, for example, the link between trust, morals and ethics (e.g. Luhmann, 1979 and Baier, 1986) and Wittgenstein's related discussions regarding certainty and uncertainty (1969), since a) this is not wholly relevant for the purposes of a thesis concerned with deriving and testing an operationalisable theory of trust suitable for field study application, and b) it in any case underpins all of the more recent work on trust in sociology and management upon which the thesis more appropriately draws. The introductory discussion will instead take the form of i) a brief exploration of the trust concept in very broad terms, and ii) the elucidation of the concept of trust as a type of knowledge. This is in order to provide an initial, workable explanation of trust, prior to more detailed discussions which follow later in the thesis. The chapter concludes by outlining the structure of the thesis in the form of summary discussions of the content of each of the remaining chapters.

## **EXPLORING THE TRUST CONCEPT**

### *Lay Meanings of Trust and Their Difficulties*

Although, as individuals, we continually enter into trusting relationships with others, we are rarely aware of how fundamental it is to our everyday lives (Marsh, 1995:19). As a result, it may be said that trust is more conspicuous in its absence, rather than in its presence (Baier, 1986). It follows, then, that in lay terms the word "trust" is very vague. Yet general definitions are also hampered by the use of words which, in themselves, are equally vague. For example, the Oxford English Dictionary defines *trust* as "confidence in or reliance on some quality or attribute of a person or thing or the truth of a statement, as the confident expectation of something" (Hawkins, 1986:882), and *to trust* as "to have faith or confidence in, or to rely upon". Thus, confidence, reliance, dependence, faith, expectation and hope are all closely linked, and may perhaps be better described more as synonyms of trust in lay terms (Mayer et al, 1995).

It follows that the everyday use of the word trust has brought about a confusion as to what its true meaning is. This has come about as a result of our attempts to gather together and express large portions of our experiences as a single collective term ("trust"), thereby providing "a useful short-hand way of drawing attention to the inaccessible aspects of our experiences" (Chia, 1996). Despite the fact that such "literal metaphors" (ibid) do not describe our experiences (they merely allude to them), their everyday use as short-hand de-scribers (obviating the need for writing at length) generates "manifold ambiguity" (Whitehead, 1938:75), and thereby leads to a gradual loss of their allusive character. Polanyi expresses this by arguing that "unless an assertion of fact is accompanied by some heuristic or persuasive feeling, it is a mere form of word saying nothing" (1958:254). In a similar way, therefore, to that by which metal becomes oxidised through repeated exposure to the contaminating air, leaving an obscuring layer of rust, so the everyday meaning of trust has arguably become 'oxidised' by repeated airing, leaving a confusingly blurred descriptive layer hiding the experiences it originally alluded to<sup>2</sup>.

#### *Theoretical Meanings of Trust*

Attempts to uncover the experiences alluded to by the term trust have been made in a number of disciplines, ranging from philosophy (e.g. Baier, 1986 and Hosmer, 1995) and sociology (e.g. Gambetta, 1990 and Barber, 1983) to psychology (e.g. Deutchsh, 1962). The subject is inherently obscured, however, by the fact that each discipline focuses on particular elements of it (e.g. Worchel, 1979). Psychological approaches to trust, for example, have tended to concentrate on trust as a personality trait developed by individuals in varying degrees depending upon their experiences (e.g. Rotter, 1967, 1971 and 1980). Sociological approaches, on the other hand, have either interpreted trust from observed behaviour of individuals in situations that expose "the individual to the probability of risk" (Worchel, 1979), or as individual characteristics perceived by others as trustworthy (e.g. Cook & Wall, 1980 and Dasgupta, 1990). An extension of this approach has been to conceive trust as "applicable to the relations among people, rather than the psychological states" of individuals (Lewis & Weigert, 1985).

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<sup>2</sup> It is 'rusty trust'.



Thus it may be seen that trust has been broadly categorized into three layers. These are: **basic trust** (Marsh, 1995:56), the personality trait or disposition of an individual to be trusting or not; **general trust**, an individual's general tendency to trust, or not to trust, another individual; and **situational trust**, that which is dependent "on the situational cues that modify the expression of generalized" tendencies (Worchel, 1979), where one such situational cue may be the amount and quality of communication (e.g. Giffin, 1967). That is, although one may trust an individual on the whole, one may not do so in certain situations and under certain circumstances. These trust layers may be seen to operate such that, in the absence of either general trust or general lack of trust, for example, an individual's basic trust (or basic distrust) influences his behaviour, and where general trust or general distrust exists, then an individual's basic trust (or basic distrust) is less important in determining his behaviour (e.g. Wrightsman, 1964). Thus it follows that, broadly speaking, general trust may be regarded as the experience borne of a collection of past situational trusts (Stack, 1978 and Luhmann, 1979).

#### *Specific Studies of Trust*

Of the levels of trust described above, an understanding of situational trust is consequently most important, since factors influencing general trust are those that influenced the individual in previous situations. To concentrate specifically on situational trust, therefore, a number of quantitative studies have been conducted on trust in different settings. Instruments have, for example, been developed for the measurement of interpersonal trust at work (Cook & Wall, 1980), organizational trust (Hart et al, 1986), interpersonal trust in families (Larzelere and Huston, 1980), institutional trust (Kaplan, 1973 and Chun & Campbell, 1974) and trust in communication processes (e.g. Giffin, 1967). Similarly, qualitative studies of, for example, worker and managerial trust (e.g. Jennings, 1971; Gabarro, 1978; and Lorenz, 1992), project teams (Porter and Lilley, 1996) and negotiation settings (Ross and La Croix, 1996) have also addressed the general question of "what generates, maintains, substitutes or collapses trusting relations" (Gambetta, 1990:xi). Of particular interest here is the conceptual study by Low and Srivatsan (1993,1995), addressing the question "What does it mean to trust an entrepreneur?", in which it was

hypothesized that trustworthiness and competence were essential impressions for an entrepreneur to give to potential business associates because of the high levels of risk and uncertainty involved in venture creation.

In order to build trust, Low and Srivatsan suggest that an entrepreneur must demonstrate the ability to "correctly identify the stakeholder's utility function [i.e. values associated with instrumental and non-instrumental payoffs]..., determine the level of confidence required to secure the stakeholder's support..., build confidence..., and demonstrate his trust and competence-detecting skills" (1995:73-74). They further suggest that the pattern of trust development is further complicated by the problem that an overly enthusiastic message to one group will not be credible, because the individuals concerned will be aware of at least some of the conflicting requirements of others with whom the entrepreneur is having to interact to run the business (1993). Thus, the entrepreneur must manage a set of relationships such that a positive impression is left regarding the chances of success of the venture as a whole (Low and Srivatsan, 1995:73). For stakeholders to believe the entrepreneur, therefore, it is argued that they must believe not his absolute authenticity - for he cannot be authentic with all parties - but his performance and his ability to play the various stakeholders off against each other to the ultimate benefit of all concerned (ibid:71). Thus, it may be seen that, broadly speaking, such studies as these have all been made to assess the factors which determine interpersonal trust, and the findings of some of the most important (though by no means all; see, also Mayer et al, 1995 and Clark, 1993) are given as Table 1 below.

Useful though such comparison is, however, it also serves to illustrate the fact that attempts to describe factors which determine trust fail to explain what interpersonal situational trust is, since we arrive at a further set of 'oxidised metaphors', such as integrity, openness, competence, discreteness, consistency, and find ourselves asking the same question: "What is meant by..?" It is therefore necessary to approach the subject from a different perspective. One such is that adopted by behaviourist studies of trust which have interpreted an individual's behaviour in a particular situation as resulting from different types of trust (e.g. Deutsch, 1973).

### *Similes and Definitions of Trust*

A number of such so-called situational trust 'types' have been identified, and have been summarised by Marsh (1995:27-28) as: trust as despair; trust as social conformity; trust as innocence; trust as impulsiveness; trust as virtue; trust as masochism; trust as faith; trust as risk taking; and trust as confidence. Mayer et al (1995) add trust as co-operation, and trust as predictability. Of particular note, perhaps, in a business setting are **trust as despair** (where "the negative consequences of not trusting... are so great or so certain" that the individual has no choice but to trust the other party), **trust as social conformity** (where trust is expected by the other party(s), and not to trust would lead to an irretrievable breakdown of the relationship), **trust as risk taking** (where the possible positive results of trust being well placed are greater than the negative results should the trust be poorly placed), **trust as confidence** (where the element of risk in the decision to trust is far less than in trust as risk taking, and consequently one enters into the decision with far greater optimism), **trust as co-operation** (whereby the probability that an individual "will perform an action that is beneficial or at least not detrimental to us is high enough for us to consider engaging in some form of co-operation with him" (Gambetta, 1990:217)), and **trust as predictability** (where the decision to trust an individual is dependent on his predictable behaviour). Whilst each of these trust similes help to give an understanding of what situations may lead an individual to trust, they do not bring us any nearer an explanation of what trust is, however, for trust cannot be described as any or all of these types. Trust is not for example despair, co-operation, confidence, or risk taking. A re-examination of these descriptions reveals that each provide a simile for a part of what might be involved in interpersonal trust. Furthermore, we again find ourselves asking the question "What is meant by..?", since each of these similes is another oxidised metaphor.

**Table 1.**  
**Some Factors Determining Situational Trust**

<i>authors (in alphabetical order)</i>	<i>trust achieved through</i>	
Butler (1991)	availability consistency loyalty integrity promise fulfilment	competence discreteness fairness openness receptivity
Gabarro (1978)	impression making mutual expectations integrity openness competence	exploration & learning stability consistent behaviour discreteness judgement
Giffin (1967)	trust of the speaker source credibility	showing: expertness reliability intentions dynamism
Hart, Capps, Cangemi & Caillouet (1986)	safe working conditions information sharing accurate communication predictability expressing confidence in a person's ability	job security freedom of expression fairness employee participation
Jennings (1971)	accessibility loyalty	predictability availability
Johnson-George & Swap (1982)	material possessions dependability/reliability personal confidences	reliableness physical safety
Larzelere & Huston (1980)	benevolence	honesty
Low & Srivatsan (1993)	trustworthiness	competence
Schumm et al (1985)	benevolence	honesty

A further understanding of trust may be gleaned by an examination of a number of recognised definitions of trust, listed as follows.

- "An individual may be said to have trust in the occurrence of an event if he expects its occurrence and his expectations lead to behaviour which he perceives to have greater negative consequences if the expectation is not confirmed than positive motivational consequences if it is confirmed" (Deutsch, 1958);

- Behavioural Trust is "the willingness to increase one's vulnerability to another whose behaviour is not under one's control" (Zand, 1972, in Nootboom et al, 1997);

- Trust is "the extent to which one is willing to ascribe good intentions to and have confidence in the words and actions of others" (Cook and Wall, 1980);

- Trust is "a state involving confident expectations about another's motives with respect to oneself in situations entailing risk" (Boon and Holmes, 1991);

- Trusting behaviour consists of "actions that increase one's vulnerability to another whose behaviour is not under one's control and takes place in a situation where the future penalty suffered if the trust is abused would lead one to regret the action" (Lorenz, 1992);

- Trust is "an individual's behavioural reliance on another person under a condition of risk" (Currall and Judge, 1995);

- Trust is "the expectation that transacting parties will not defect, even when it is in their self interest to do so" (Low and Srivatsan, 1995);

- Trust “indicates the willingness of an agent to engage in a transaction in the absence of adequate safeguards” (Noorderhaven, 1995);
  
- Trust is “the expectation that arises, within a community, of regular and honest co-operative behaviour, based on commonly shared norms, on the part of other members of that community” (Fukuyama, 1995);
  
- Trust is “the expectation by one person, group or firm of ethically profitable behaviour - that is morally correct decisions and actions based upon ethical principles of analysis - on the part of the other person, group or firm in a joint endeavour, or economic exchange” (Hosmer, 1995);
  
- Trust is “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer et al, 1995);
  
- Intentional Trust is “the subjective probability that one assigns to benevolent action by another agent or group of agents (Nooteboom et al, 1997);
  
- Trust is “a positive anticipation made by A about B’s intention and ability to achieve a given purpose, this anticipation being followed by an assumed risk” (Krieger, 1997).

*The Adopted Description of Trust, and Other Concerns*

These definitions allow us to surmise that trust concerns a positive expectation regarding the behaviour of somebody or something in a situation which entails risk to the trusting party; this is therefore the description of the phenomenon that is adopted for the work reported in the following pages. It will also be clear from the above discussion, however, that a number of problems remain concerning the trust concept. These have been summarised by Mayer et al (1995) as lack of clarity in the relationship between risk and trust; confusion between trust, its antecedents and outcomes; lack of

specificity of trust referents leading to confusion in levels of analysis; and a failure to consider both the trusting party and the party to be trusted. To briefly answer these, and with regard first to trust and risk, a generally accepted rule, noted by Mayer et al (1995) and increasingly apparent in the later definitions listed above, is that for trust to occur, risk must be perceived by the trusting party (Marsh, 1995). This brings with it the implication that risk and trust are subjectively prehended by the trusting party (see Chapter II and Chapter III for further discussion). Hence, "trust is always for something we can rightfully demand of others: misplaced trust, accordingly, is not a shortcoming on the part of the trustful person, but of the person in which the trust was placed" (Hertzberg, 1988). Thus, as Marsh (1995) notes, the decision to trust is always correct in and of itself, but the decision to trust *a particular party in a particular situation* may not be.

With regard next to antecedents and outcomes, in a review of trust literature extant in the social sciences Krieger isolates the antecedents to trust as interest, calculation, probability, risk, uncertainty, information, communication, culture, values, third parties, institutions, integrity, benevolence, morality, intentions, competence, ability, time experience, reputation, proximity, familiarity, similarity, guarantees, agreements, and formal contracts; the outcomes of trust as risk taking, investment, co-operation, control system, self-enforcing and self fulfilling phenomena, innovation, non zero sum games and performance; and substitutes and/or complements of trust as power, hierarchies, markets and instantaneous transactions (1997), to which one might also add promises (Atiyah, 1981 and Robins, 1984). With regard lastly to problems regarding specificity of trust referents and levels of analysis (i.e. individual, firm, or society in general), it will be seen that more recent definitions of trust tend to overcome this to some extent. These issues will nevertheless be worked out further below, in preparation for a more detailed consideration of trustors (trusting parties), the types of situational trust placed in trust subjects (trusted parties) and trust objects (situations or issues concerning which trust is placed in the trust subject by the trustor) in Chapter III and Chapter IV.

### *Trust as a Gap-Filling Tacit Knowledge*

To summarise, we have thus far seen that the trust of an individual may be split into three layers; basic, general and situational. We have also seen that attempts to understand the trust concept have led to the identification of "trust" as what we have termed an oxidised metaphor. Further, we have shown that attempts to understand its allusive character lead, in turn, to the use of similes (e.g. trust as despair). Although these similes give us an understanding of the types of behaviour that may indicate trust, they again fail to explain what trust is (trust is not despair, for example). In addition, we have shown that no single definition seems to adequately capture the essence of the concept (Marsh, 1995). It remains elusive, subjective and "internal..., rather than something which can be directly observed" (Riker, 1974), which is dependent upon external determining factors (as discussed above and listed in Table 1), and which "results in external physical actions from which one infers the internal" (ibid).

Given this conclusion it is useful to draw on the work of the philosopher Michael Polanyi, whose description of the process of *trying to explain* the generation and regeneration of tacit knowledge also provides an accurate account of our struggle to explain trust, as follows.

"When we grope for words to describe an experience, we use the particulars we have seen and heard as clues to conceptions covering them, and we then designate these particulars by the names of these conceptions... The clues enter here into a procedure of tacit inference...(which) takes place effortlessly, unnoticed by ourselves."

(Polanyi, 1969:191)

Further examination of the latter part of this extract reveals also the process of the development of tacit understanding, whereby "particulars" are explicit knowledge, tacit knowledge is that which is inferred, which "rests on our subsidiary awareness of particulars in terms of a comprehensive entity" (ibid:133)



and from which new explicit knowledge arises (ibid:195). For the purposes of the attempt here to further explain trust, we may therefore say that the external determining factors - the particulars seen and heard as clues to the concept of trust - amount to our explicit knowledge, whereas trust itself is a tacit inference then used as a knowledge in our subjective judgement regarding the trustworthiness of others (Marsh, 1995) and which, in turn, can only be represented by explicit behaviour.

Research into management decision making in organization theory has increasingly recognised that "individuals have cognitive limitations...and must act under uncertainty and often ambiguous and incomplete information" (Luthans, 1992:495). Construing trust as a tacit knowledge provides a possible explanation for why trust enables a reduction of complexity (Luhmann, 1979:4-5), since tacit trust is a replacement for the absent explicit knowledge which is itself increasing the complexity of the situation concerned by its very absence. Situational trust may therefore usefully be considered as that which we use to replace gaps in our explicit knowledge of a situation. It follows from this that it is the very lack of explicit knowledge that introduces the perceived risk and thence the requirement for trust. Put another way, in order to avoid 'cognitive overload' by attempting to know everything about those we interact with, we trust (ibid); our lack of explicit knowledge is replaced with tacit knowledge. This also helps to explain how a key component of trust formation may be unconscious deliberation (Luhmann, 1979 and Dibben, Marsh and Scott, 1996) since unconscious deliberation is inherently tacit (see below).

#### *Philosophical Distinctions between Trust Types*

It is important to remind ourselves that the trust which we have been discussing is that which might be described as interpersonal situational trust - the trust of an individual which is determined by the situational cues (or "clues", to use Polanyi's term (1969:194)). This leaves us with the following question: "assuming situational trust is a tacit knowledge, what are general trust and basic trust?" It is tempting to answer that they, too, are a tacit knowledge, but this is not necessarily the case. To take general trust first, we have said that general trust is that which is the sum of previous situational experiences; it is of the past, not of the present. This might therefore suggest that general trust is a type

of intuition (exhibited in the phrase "I have a funny feeling about him"). Intuition, however, "is not knowledge, since it involves no cognitive process of (deliberation) comparing, finding again and designating" (Stack, 1978:82) situational clues, because the situation no longer exists. General trust is that which is relegated from the subjective (immediate) to the objective (mediate - see, for example, Broadie, 1990:34-36 for a discussion of the transfer from immediate to mediate) by the immediacy of the new situation; the cognitive processes cease. Thus it becomes intuition, a source of knowledge, not knowledge itself (Popper, 1972:130).

We may now make a further distinction between general and situational trust. In being a source of knowledge general trust is *a priori*, since it exists in the mind *independent* of the sensory experience. Situational trust, on the other hand, being that which is formed in and of the situation as a result of the cognitive process of comparing, finding again and designating, is *a posteriori*. Since general trust succeeds basic trust, once a set of situations have been experienced, it follows that basic trust is also *a priori*. It is therefore closest to what Kant (1929:43) called "pure *a priori* knowledge" since, being a personality trait (see the initial discussion of trust above), "there is no admission of anything empirical" (ibid). It may be seen that Popper's distinction between intuition and knowledge appears to run contrary to Kant<sup>3</sup>. With respect specifically to basic trust, this may be explained as follows. Without an admission of anything empirical, there cannot be any cognitive process of thought (involving comparing, finding again and designating) and so basic trust is not knowledge, but intuition. To summarise, therefore, it is proposed that basic trust may be considered as a 'pure *a priori* intuition' and general trust is an '*a priori* intuition', whereby both of these act as two (of many) situational cues (or clues) that come together to determine an individual's situational trust which, in turn, is an '*a posteriori* tacit knowledge'.

### *Trust and Levels of Analysis*

This brings us to the question of what organizational trust is, an important issue in the study of trust in the business organization (Mayer et al, 1995). A separate definition has been provided by

Nooteboom et al (1997) as "the subjective probability held by an individual with respect to the conduct of an organization". Hart et al (1986), in a study of employees at General Motors, established a number of factors, information sharing, accurate communication, expressions of confidence, and communication of goals and support of employee goals that appeared to influence employee trust in the organization. Yet, as has been seen, similar factors have been found in interpersonal trust studies. So, in what way might interpersonal trust differ from organizational trust? A possible answer lies in an understanding of the difference between interpersonal relationships and a person's relationship with the organization, and also of how the latter comes into existence.

These issues may be understood by returning to the earlier discussion regarding the selection of the small business setting as a vehicle for the application of a theory of interpersonal trust. It will be remembered that small businesses, being "co-operative systems assembled out of the usable attributes of people" (Burns, 1969:232), are controlled through their social relations, and are without the structural functionalism (Berger, 1982:132) present in larger organizations. For organizational control to exist, as determined by the establishment of "predefined patterns of conduct" that signals structural functionalism (Berger, 1981:73-74, and above); therefore, individuals must have established a relationship not only with other individuals with whom they interact within the firm, but also with the organization as a separate *persona*, allowing the organization to 'act back' on individuals in a similar manner to the way in which other individuals might influence each other (Dibben and Scott, 1995). This separate *persona* as perceived by the individual, and whose 'presence' is acknowledged by legal separations of a company from the individuals working within it (Morse, 1987:37), is constructed out of the feelings of the individual brought about over time as a result of his continuing interactions within, and as part of, the business (Dibben and Scott, 1995). Thus, the locus of the relationship changes from a purely interpersonal one, between two individuals, to one in which one of the "personae" is the organization.

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<sup>3</sup> It is perhaps interesting to note, however, that it does not run contrary to Kant according to Popper (1972:130), since not all *a priori* knowledge is not empirical. See, for example, Kitcher, 1987:191 and Dancy, 1994:222-224 for a further discussion of *a priori* empiricity.

The difference between interpersonal trust and organizational trust, it is argued, lies in the locus of trust, not in the nature of the trust itself. With regard specifically to the trusting organization, the locus of trust resides not in the organization, but in an individual within the organization. This may be explained as follows. Organizations, being inanimate objects, cannot trust; only an individual person can trust. Organizational roles (i.e. boss, subordinate, employee etc.) are taken to concern certain tasks which the individual performs in certain relationships with other specified individuals in the organization, and which interpersonal trust plays a key part in enabling.<sup>4</sup> Where multiple relations are involved (i.e. greater than a dyadic trust relationship), in a situation consisting of three individuals A, B and C, for example, then six interpersonal trust relationships can be described; A's trust of B, A's trust of C, B's trust of A, B's trust of C, C's trust of A and C's trust of B. Each of the first parties' relationship with the third member (e.g. C) might influence the relationship with the second, but only insofar as this being a situational cue for the development of the particular individual trust relationship between the first and the second (e.g. A and B, and B and A) under consideration. With particular regard to the nature of that influence, a study by Burt and Knez regarding the influence of third party gossip on the trust extant in dyadic relationships indicates (as common sense would lead one to expect) that where the trust relationships of the first and the second are strong, the influence is limited, and vice versa (1996:83). A further example of the importance of the locus of trust is a formal contractual relationship between two individuals. Although this consists of two trust relationships, the locus of trust resides not in each of the individuals but in the formal legal contract which ultimately carries with legal redress regarding the carrying out of their respective roles in the relationship, their trust of which each of the individuals is using to replace the lack of trust each has in the other.

In the light of this discussion, it therefore becomes clear that the 'trusting organization' actually means 'the trusting person in a sufficient position of power and authority within the organization to act on the organization's behalf' (Currall and Judge, 1995), such as the bank manager. Such power, however, is not meant in the 'negative' sense, where it is construed as "every chance within a social relationship to assert one's will against opposition" (Weber, 1925, in Habermas, 1986:75), but rather in

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<sup>4</sup> I am grateful to Mike Scott for pointing this out.

the more 'positive' sense (as befits the positive connotation of trust itself) of an individual being "empowered by a certain number of people to act in their name... for as long as the group keeps together" (Arendt, 1986:64). It follows from this that the power and authority of the bank manager comes about as a result of him being trusted by those in the organization to act on their behalf. Thus, an individual's trust of another represents an empowering of the trusted party by the trusting party, with the associated risks that the trusted party may not behave in a trustworthy fashion with the power bestowed upon him. In this example, therefore, the trusting bank manager, trusted by the customer<sup>5</sup>, is also trusted by those who appointed him, whom (it is implied) he trusts also, thus indicating four separate yet linked trust relationships: Customer - Bank Manager, Bank Manager - Customer, Bank Manager - Appointing parties in the bank, and Appointing parties in the bank - Bank Manager. The latter two trusting relationships should, strictly speaking, of course be divided into the separate relationships between each of the appointing parties and the bank manager, and the bank manager and each of the appointing parties and, in the light of the above discussion regarding third-party influence, consideration made for the separate relationships between each of the appointing parties and each other.

Yet, this discussion brings with it the difficulty of accounting for the increasing interest in the role of trust as a social reality (societal trust), belonging to collective groups rather than to individuals (e.g. Fox, 1985 and Lewis and Weigert, 1985). This has led to a further sub-categorisation of high-trust societies and low-trust societies, which is used to explain observed differences among different cultures both with regard to business behaviour (e.g. Casson, 1990 and Sako, 1992, 1995 and Dodd, 1996) and more general social settings (e.g. Giddens, 1991 and Fukuyama, 1995). The general conclusion of such studies has been summarised by Thomas, writing in the Guardian newspaper, in the statement that "high-trust societies are economically stronger than low-trust societies. But trust [in such high-trust societies] is being created via looser networks thanks to new technology and new lifestyles" (1997:17), where the archetypal low-trust society is often quoted as being the United States and the archetypal high-trust society is Japan. (ibid; also Casson, 1990:107-10 and Sako, 1992, 1995). One of the more

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<sup>5</sup> where the customer's trust in the bank manager may be in the form of, or contribute to (along with the other action by other employees, such as tellers, and bank systems, such as computerised accounts) an expression of trust in the bank as an organization.

fundamental indicators of a high-trust society is said to be an “abundance of social capital... [and] spontaneous sociability... [as a result of which] communities do not require extensive contract and legal regulation of their relations because prior moral consensus gives members of the group a basis for mutual trust” (Fukuyama, 1995:27). From a business perspective, the ability to generate implicit contracts that function effectively outwith the family group as a result of operating in a high-trust society is said to reduce costs by, amongst others, i) enabling substantial benefit to be gained in not having to rely on formal contracts, ii) enabling faster and more effective integration of sub-contracting suppliers within the production system, and iii) increasing the likelihood of repeat orders through more rapidly generated buyer-supplier loyalties (Casson, 1990:111-113).

In spite of its increasing popularity as an explanatory framework, however, the concept of societal trust appears to deny the principle that trust is formed by individuals. In order to resolve this apparent contradiction, it is again useful to return to entrepreneurship and consider the process of venture formation. Ventures come into being "through a process of informal contact, formal contact and negotiation of specific roles... between individuals" (Dibben and Scott, 1995) which, with time leads to "the cognitive and communicative community" (Frisby & Sayer, 1986:75) of the societal group discussed above. The presence of trust in the societal group, large or small, therefore, does not come about as a result of the existence of the societal group *per se*, but rather as a result of a *process* of formation and continual re-negotiation of trust within the individual interpersonal relationships that, over time (Dodd, 1996:138), allows the societal group to establish (Cicourel, 1972:242-246; Child & Keiser, 1979: 256-265; Hunt, 1986:64-66; Shaw, 1971:244-247 and Thompson & McHugh, 1990:318). Thus, rather than being owned by the societal group (be this either the small business or the wider society in general), trust is owned by the trusting individuals; the process of situational trust development occurs as a result of individuals comparing, finding again and designating" (Schlick, 1974:82; and above) situational cues (or clues) received. The impact of 'societal trust' might therefore best be described as a general atmosphere of integrity (c.f. Casson, 1990:119) within the societal group which might affect an individual's situational trust, but only as one of the situational cues received by the individual during the process of his situational trust development.

It follows that the concept of the locus of trust also accounts for the notions of trust in cultural and political systems, trust in the environment (safety concerns), or trust in equipment that certain trust studies (e.g. Casson, 1990, Clark, 1993, Eisenstadt and Roniger, 1984, Fukuyama, 1995 and Hart et al, 1986) delineate. That is, and bearing in mind also Nooteboom et al's definition of an individual's organizational trust mentioned above, such trusts as these might more accurately be described as an individual's perception of the behaviour of a group of people, thing or set of things as a result of the situational cues perceived by that individual concerning the behaviour of either an individual or individuals in the group, or of an inanimate object, who/which is/are in a position to be considered by the trusting individual as representative of the group/set in whom/which trust is placed, the individual then considering the behaviour of the individual person or thing to be the behaviour of the community or wider set of things. It follows from this that such trust levels reflect the unit of analysis considered appropriate by the authors concerned (i.e. organization, society, environment and so on), and are also more closely equated with general trust which, as a situational cue, is then taken into account in the individual's consideration of the situational trust that arises as the gap-filler for explicit knowledge he finds absent in the particular situation. From the perspective of interpersonal trust, therefore, it might be argued that conceptualisations of organizational trust, societal trust and so on are, in and of themselves, attempts at the reduction of the complexity of the topic of interpersonal trust itself (c.f. Barber, 1983, Eisenstadt and Roniger, 1984 and Shapiro, 1987).

## **CONCLUSIONS AND IMPLICATIONS FOR RESEARCH**

This chapter has provided an introductory review of the literature on trust, explaining not only the importance of trust in establishing and maintaining interpersonal relationships in the small business, but also illustrating how a study of business venture creation may improve our understanding of what is an inherently complex and dynamic phenomenon. The lack of a suitably wholistic trust concept resulted in a re-conceptualisation of: (1) situational trust as an *a posteriori* tacit knowledge; (2) general trust as an *a priori* tacit intuition; and (3) basic trust as a 'pure *a priori* tacit intuition'. This re-conceptualisation

has in turn served to show: (a) that general and basic trust exist as situational cues influencing an individual's situational trust of another person, or thing; (b) that the locus of trust may change, depending on the situation; (c) that trust is a processual phenomenon, altering not only according to the situation considered, but also according to the development over time of the interpersonal relationship of which it forms the basis; and (d) that conceptualisations of such trusts as organisational trust and societal trust are attempts to simplify the trust concept in order to account for the impact of trust at the level of, for example, the organisation or the society, where particular studies concern themselves with these units of analysis. In the light of this discussion, the chapter has also shown that of the various trusts considered above, in-depth study of situational trust is the most important since a) ownership of trust rests solely with the trusting individual, irrespective of either the situation or the nature of the societal group, and b) it has the most impact on an individual's behaviour.

#### *Implications for Research*

Given this conceptualisation, it is necessary to address the question of how one might begin to research the significance and role of trust in the small business. Previous studies of trust in entrepreneurship, as with many other research areas, have tended to refer to trust only in passing, acknowledging its central role as "a major lubricant" (MacMillan, 1989:185) but avoiding a detailed discussion. It is therefore imperative that a detailed study be carried out on the role of trust in the entrepreneurial/small business setting, where high levels of uncertainty combine with a "high degree of contiguity between individuals in the relationship" (Shapiro et al 1992) to generate well-founded interpersonal relationships (Low & Srivatsan, 1993). Such high degrees of uncertainty are especially prevalent in a small business during periods of change, and even more so when those changes are likely to affect the future of the business (Borch and Arthur, 1995). It is therefore proposed that interpersonal trust, and especially fluctuations in interpersonal trust, will play an important role in the development of the small business. This reflects an increasing recognition of the business organization as an "emergent phenomenon" (Tsoukas, 1994:13). Given the acknowledged difficulty in observing esoteric phenomena in management research (Godfrey and Hill, 1995; also Ram, 1996 and Eden and Huxham, 1996) and the



subjective nature of the trust process, it follows that the research might most usefully follow recent calls for greater use of social anthropological methodologies for investigating human interaction from a subjectivist approach (Borch and Arthur, 1995). This, however, raises important ontological and epistemological implications concerning in particular, process metaphysics, the use of theories as explanatory frameworks, interpretivism, subjectivism, idealism and the validity of such approaches in the conduct of field research. These are addressed as the subject Chapter II.

## **THE STRUCTURE OF THE THESIS**

Further to the discussion of trust and the development of a general proposition that will underpin the research presented in the thesis, however, it is appropriate to now provide an outline of the thesis content. This is therefore presented below, in the form of summary abstracts of each of the remaining seven chapters. It is also presented following the Preface (for ease of reference) in the form of a diagrammatic summary.<sup>6</sup>

### *Chapter II*

Following the identification of interpersonal trust as a complex subjective processual phenomenon, Chapter II considers some of the metatheoretical issues that arise with regard to the exploration of the role and effect of trust in the small business. It presents Harrison and Dibben's Presuppositional Hourglass (1996), providing definitions of the various sub-sections of metatheory and their relation to each other, and arguing that an appreciation of the ontological and epistemological premises brought to research is essential for the correct selection of appropriate methods of inquiry. The ontological and epistemological positions of the research set out in this thesis are then established, with due regard for the findings regarding trust presented above (i.e. in Chapter I), by a discussion of idealism and realism, subjectivity and objectivity, theory and data, and lastly stasis and process. This position may be broadly summarised as interpretivist, consisting ontologically of nominalism,

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<sup>6</sup> While such abstracts may initially take away some of the sense of cumulative discovery engendered by the ongoing research reported in the thesis, they are included for the purpose of providing a comprehensive first guide to its procedures, main findings and implications. Some may prefer to engage

epistemologically of anti-positivism and methodologically of ideography. The chapter concludes with a discussion of the implications of this position for the research of interpersonal trust in the small business, and argues for the principle of 'demonstrable applicability', whereby ongoing theoretical refinement by iterative critical comparison with empirical work enables significant advances in the understanding of complex social and processual phenomena.

### *Chapter III*

In the light of the findings of Chapter I and Chapter II, Chapter III explores the dynamics of interpersonal situational trust in the small business. It draws particularly on the work of Clark (1993) and Lewicki and Bunker (1995, 1996) to develop a Theoretical Model of Situational Trust Development applicable to the small business setting, for the purposes of empirically exploring the role of interpersonal trust in the small business. Firstly, by way of introduction, it briefly explains the relationship between the three broad trust types - basic, general and situational - said to constitute what is commonly known as an individual's 'trust'. Recognising that other dualisms have also been argued as important situational trust dimensions, the chapter then considers the development of interpersonal situational trust in more detail by examining the effect on situational trust of different levels of (a) situational cues and (b) familiarity with the trusted individual. This is achieved by comparing two typologies identified as using these particular situational trust dimensions, and by assessing the applicability of the typologies to the small business setting. Fourthly, from this discussion the chapter develops a typology which attempts to encompass effects noted as being particularly prevalent in the small business setting. These are the effects of: knowledge intensiveness (Starbuck, 1992, 1993), time, trust decline, trusting relationships that exist prior to the establishment of the business, and the often unique and related situations of pre-start, start-up and failure crises. Fifthly, in the light of this, identifying characteristics of each of the five trust types proposed - Faith-Based Trust, Dependence-Based Trust, Familiarity Reliance-Based Trust, Comprehensible Situational Cue (CSQ) Reliance-Based Trust and Confidence-Based Trust - are discussed. The chapter concludes with a brief discussion of implications for research and a set of research questions, which are aimed at (a) demonstrating the

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in the discovery without knowing where they are going before they start by moving straight to Chapter II at this point.

applicability of the typology, and (b) predicting the effect of different trust types on individual behaviour in the small business setting.

#### *Chapter IV*

Following the theoretical developments outlined in Chapter III, and recognising the individual entrepreneur as the most appropriate unit of analysis in studies of small business development (Scott and Rosa, 1996), Chapter IV reports on the first of three empirical studies exploring the nature, extent and impact of interpersonal trust in small businesses by application of the Theoretical Model of Situational Trust Development. The precise aims of the first stage study are listed and a detailed discussion of the development of the research instrument used in the study is given. Illustrations from transcript material of different types of trust identified in the study are worked through, before the results of the study are discussed in detail, with further illustrations from the transcript material. The research finds that, while Dependence-Based Trust and Familiarity-Based Trust are more common in the small business, Confidence-Based Trust and CSQ Reliance-Based Trust have a greater impact on its development. In the light of the findings and illustrations, the chapter concludes by arguing that trust theory may provide a means to access the hitherto relatively un-researched social and political processes that underpin small business start-up and growth. Finally, areas for further research are suggested, highlighting the need for longitudinal studies aimed in the first instance at tracking the development of Confidence-Based Trust and CSQ Reliance-Based Trust, in order that a more detailed picture of the influences of interpersonal trust on the small business may be gained.

#### *Chapter V*

Chapter V provides a discussion of the theoretical implications arising from the first stage study research presented in Chapter IV. Firstly, the chapter presents an introductory summary of the findings of the first stage study, in order to both locate the first stage study within the wider framework of research of which it forms a part, and also to highlight areas of trusting behaviour which the Theoretical Model of Situational Trust Development proposed in Chapter III does not appear to account for. In order more specifically to identify weaknesses in the model, a number of first stage study cases are revisited

and, in the light of the findings, a detailed discussion of the theory of co-operation and its relation to trust is given. A number of criteria for co-operation are derived and it is suggested that they may operate in conjunction with situational trust to affect co-operative behaviour, via their establishment of co-operation thresholds. The criteria are then applied to both a hypothetical case and also to two cases taken from the first stage study, in order to both come to a greater understanding of the interrelationship between trust and co-operation and also to briefly assess whether the criteria are operationalisable for the purposes of further exploratory study into the nature and role of trust in the small business. In the light of the findings from these applications, a model of situational trust and co-operation is proposed which explicates the ways in which trust and co-operation criteria might come to influence co-operation. A number of implications for trust theory are then derived, emphasising the overriding importance of interpersonal situational trust in determining the development of relationships in the small business setting, and the need for further study to come to a greater appreciation of the way in which the process of trust formation occurs at the level of the interpersonal relationship.

#### *Chapter VI*

Chapter VI builds on the earlier chapters IV and V (which map out the types and frequency of occurrence in the small business of interpersonal trust) to explore the development and impact of trust in a variety of trusting situations, by means of illustrations taken from the transcripts of a participant observation study of a Scottish small business. Firstly, the chapter briefly reviews the theoretical developments resulting from the earlier research and presents a set of nine research questions and five researchable propositions used to guide the enquiry. It then discusses the research approach, arguing that participant observation provides a suitable means by which to access trusting, co-operative relations in the small business for the purposes of in-depth exploratory research, before illustrating advantages, disadvantages and ultimate validity of the approach with extracts from the author's field notes. The chapter then examines twenty interpersonal exchanges relating to the role of Faith-Based Trust, interpersonal trust development, trust in crisis situations, operational situations and strategic decision situations, and trust decline. It finds illustrative evidence for each of the research questions posed, and provides confirmatory evidence for the earlier work of Low and Srivatsan (1995) regarding factors

affecting interpersonal trust development in the small business. It also finds that CSQ Reliance-Based Trust appears to be the most important trust type operating in the small business setting, that however important Faith-Based Trust may be in speeding the development of effective inter-organizational business relationship, long term relationship development requires its conversion to other, more resilient types of interpersonal trust, and that significant business development appears to be commensurate with significant positive alterations to the trusting relationships of key business actors. Finally, areas for further research are suggested, focusing on the need for the research to again access trust development *in process*, and highlighting the consequent need for yet more in-depth research into the micro-process of interpersonal trust development, in order to come to a greater understanding of the role of co-operation determinants in affecting trust development during the trusting situation.

### *Chapter VII*

In the light of the need to attempt to gain access to the process of trust development, called for in Chapter VI, Chapter VII uses protocol analysis of twenty-seven verbatim transcripts of informal investors considering three different investment opportunities, to access the trust development process over the course of a single interaction. It first provides a rationale for the study of the informal investment decision within the thesis by briefly revisiting the first and second stage studies and illustrating the importance to the entrepreneurs and small businesses examined in those studies of the informal investment decision and the role of trust within it. It then provides a brief literature review of the informal investment decision as a context for the study, highlighting the importance of Faith-Based Trust in the initial investment screening and assessment domains, before deriving a set of eleven research questions designed to structure the research by focusing on the role and importance of the various trust and co-operation criteria in trust and co-operative behaviour development. The chapter then discusses the research approach used in the study and describes the data used, before presenting the results. It then undertakes an analysis of the results by examining the role and affect of the various trust types and co-operation criteria identified, and by examining three selected transcripts in such a way as to elicit information regarding the nature of the development of trust and co-operation thresholds during the course of the interactions described within them.

The study supports the findings of Chapter IV and VI, by finding that (i) Faith-Based Trust plays a major role in the development of co-operative behaviour in the investment decision situation, (ii) an investor's trust of the co-ordinating party plays an important part in determining the trust that develops between two parties following an introductory interaction, (iii) Faith-Based Trust can itself usefully be separated into four constituent sub-types, each resembling the four situational trust types already described in the Theoretical Model of Situational Trust Development, and (iv) the distinction drawn between CSQ Reliance-Based Trust and Familiarity Reliance-Based Trust aids interpretation of the trust development process at the level of the single interaction. It also finds that (i) the Model of Co-operation proposed in Chapter V, and examined in Chapter VI at the level of multiple interactions, also provides a meaningful interpretative framework for the analysis of the development of co-operative behaviour at the level of the single interaction, (ii) Competence, Utility and Risk play the most important roles in determining the development the investor's co-operation threshold, and (iii) the investor's perception of his own competence in the situation may have a bearing on the development of his co-operation threshold for that situation. The chapter concludes with a discussion of contributions and areas for further research, concentrating on the need to extend the research to other investment decision domains, such as evaluation of the opportunity and negotiation prior to investment, as well as other interpersonal scenarios within the small business setting. It also highlights the need to gain access to the trust development process of both parties in the relationship under study in order to be able to predict not just the co-operative behaviour of one or the other party, but the co-operation of both parties.

### *Chapter VIII*

As the concluding chapter to the thesis, Chapter VIII first provides a brief summary of the research, highlighting the various research approaches used, and detailing the main findings of the three stage studies. In the particular light of the findings, it then presents a revised model of co-operation which includes the criteria added as a result of the third stage study. Following this discussion, the chapter moves on to consider the implications of the research for the small business and other organizational settings, suggesting that the application of the models of trust and co-operation with

isolated situational trust types and co-operation criteria would not only enable practitioners to gain an understanding of the types of trust operating in the setting being considered, but also an understanding of the most appropriate trust types being considered, thus enabling improvements to be made in the interpersonal interactions within the organization and between it and its customers and suppliers, with attendant consequences for business performance.

The chapter next discusses theoretical implications, arguing that, in spite of the in-depth nature of the research presented, particularly in the second and third stage studies, the research has not been able to fully access the developmental process of interpersonal trust at the level of the individual. It therefore provides a basic description of a theoretical process, and argues that interpersonal trust, being a judgement formed under the influence of a number of situational cues perceived by the individual, may be usefully considered as an 'actual occasion in concrescence' (Whitehead, [1929] 1978). It integrates key elements identified in trust theory with the main elements of a theory of process as derived from Whitehead's philosophy of organism, prior to assessing the applicability of trust to the theory of process in the form of an illustration of how a number of key trust issues might relate to key issues in process theory. In the light of this discussion, the chapter then provides a theoretical description of trust development and its impact on co-operative behaviour in terms of the meaning structure of process theory, and thereby uncovers the hitherto inaccessible micro processes that go towards the development and continuation of interpersonal trust. The chapter next considers the contributions of the research, emphasising its exploratory nature, before discussing limitations. Finally, in the light of this discussion, the chapter concludes by arguing that interpersonal trust is central to effective business development, and suggesting a number of areas for further research. These include a widening of the sample sizes of each of the studies, and undertaking cross-cultural comparisons in order to assess whether the nature of trust development is indeed different at the level of individual businesses in different cultural settings, as is implied by writers using societal trust explanations of differences in the business performance of different countries.

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## Chapter II

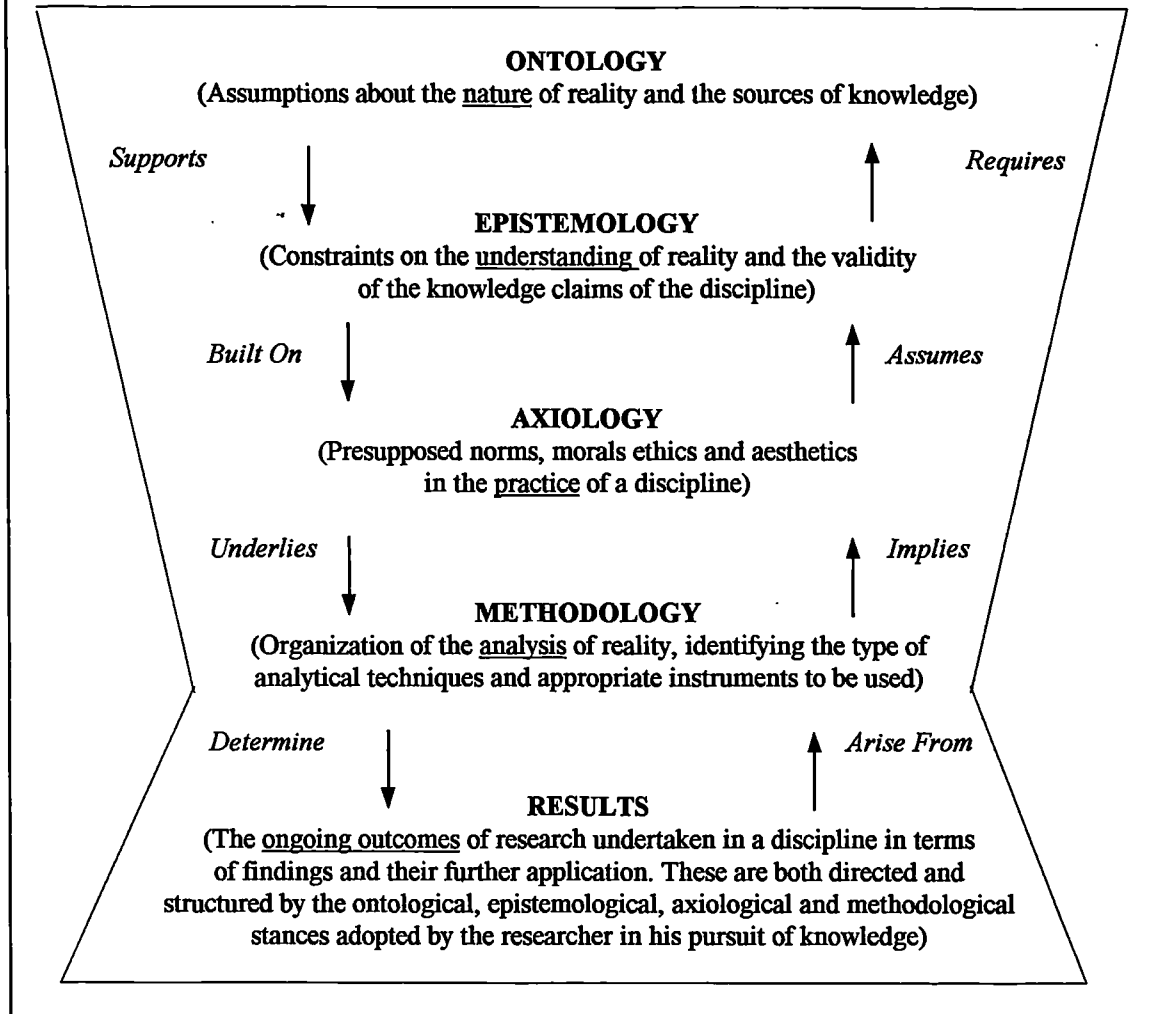
### *Metatheoretical Considerations*

*The sceptical path is sterile. Let us try another path, the path of self trust.*

Keith Lehrer (1997)

The previous chapter discussed the importance of trust in business and outlined a position regarding interpersonal situational trust which construed it to be a subjective *a posteriori* tacit knowledge whose development during the course of a situation, and across situations by way of its relegation to general trust, an *a priori* tacit intuition which forms one of the situational cues affecting the development of situational trust in future situations, is best considered as a process. The previous chapter also noted the general aim of the thesis as an exploration of the importance and role of trust, and particularly interpersonal trust, in the small business. As such, an underlying intention is the attempt to contribute in some way to the understanding of social interaction by theoretical and empirical investigation. A prerequisite of any such attempt is the explicit positioning of the research with regard to its metatheoretical stance. As has been argued elsewhere, this is because "even where not explicitly addressed, the taken for granted world of empirical research is riddled with assumed answers to the questions of legitimacy, definition and scope... [Thus, one] cannot engage in methodological enquiry without being aware, either explicitly or implicitly, of epistemology and ontology" (Harrison and Dibben, 1996). The inter-relationship between each of the various metatheoretical suppositions is described in Figure 1 below, the broad implication of which is that "methods (and derived from them, techniques) are framed by an ontology and an epistemology, and to engage in... methodological debate without being aware of the implicit epistemology and ontology is the most dangerous, potentially misleading, thing of all" (ibid).

Figure 1. The Presuppositional Hourglass. (modified from Harrison and Dibben, 1996)



The purpose of this chapter, therefore, is to take up in particular some of the ontological and epistemological issues which are raised by the conclusion of the previous chapter that trust may be usefully considered as a subjective processual phenomenon, and thereby derive a framework within which appropriate empirical research approaches can be discussed and utilised in the chapters which follow. More specifically, therefore, this chapter will first consider similarities and differences between a) idealist and realist and b) subjective and objective presuppositions in research. In the light of these discussions, it will then, second, consider the relationship between both c) theory and data, and d) process and stasis in inquiry. Each comparison carries within it the adoption of one of the two terms as



governing the research undertaken in the remainder of the thesis. The chapter therefore concludes with a discussion of the implications of the overall metatheoretical stance for the research of trust in the small business. It is first necessary however, as a background to these discussions, to begin with the straightforward statement of a number of definitions pertinent to the conclusions regarding the nature of trust as set out in the previous chapter.

## **DEMONSTRATING AN ONGOING PHILOSOPHICAL TENSION**

**subjectivism:** "an account is subjective just in case it implies that the standards of rational belief are those that the individual believer or the individual's community or the human community at large would either approve of or take for granted in so far as their ends are intellectual... the standards of rational belief are somehow the products of our beliefs, our dispositions, or our practices" (Foley, 1992:495-496).

**subjectivity:** "attributed variously to certain concepts; to certain properties of objects; and to certain modes of understanding. The overarching idea of these attributions is that the nature of the concepts, properties or modes of understanding in question is dependent upon the properties and relations of the subjects who employ those concepts, possess the properties or employ those modes of understanding" (Peacocke, 1992:497-498).

**objectivism:** Objectivism about a topic holds that judgements about it are objectively true or false, meaning that they are true or false independently of us, or of our perspectives, or opinions. Projectivism is usually contrasted with this, holding that in some sense our judgements about the topic are no more than 'projections' of potentially variable subjective aspects of our own reactions" (Blackburn, 1995:368)

**objectivity:** "Something is [ontologically] objective if it exists, and is the way it is, independently of any knowledge, perception, conception or consciousness there may be of it... Objectivity can be construed [epistemologically] as a property of the contents of mental acts and states..., [where] it must at least

possess a content that 'may be presupposed to be valid for all men' (Kant, 1953, s19)" (Bell, 1992:310; see also Brown, 1995:369-370).

**subjective/objective:** "The contrast between the subjective and the objective is made in both the epistemic and the ontological domains. In the former it is often identified with the distinction between the intrapersonal and the interpersonal, or with that between matters whose resolution depends on the psychology of the person in question and those not thus dependent, or, sometimes, with the distinction between the biased and the impartial" (Audi, 1992:309).

**idealism:** "The philosophical doctrine that reality is somehow mind-correlative or mind-co-ordinated - that the real objects comprising the 'external world' are not independent of cognizing minds, but only exist as in some way correlative to the mental operations. And it construes this as meaning that the inquiring mind itself makes a formative contribution not merely to our understanding of the nature of the real but even to the resulting character we attribute to it... [Thus] it is not the *existence* but the *nature* of reality that the idealist puts into question" (Rescher, 1992:187-188).

**realism:** "Realism in any area of thought is the doctrine that certain entities allegedly associated with that area are indeed real" (Pettit, 1992:420; 1991:588).

At first glance, these definitions appear to clearly state the various principles and differences in position of subjectivism, subjectivity, objectivism, objectivity, idealism and realism. Closer consideration reveals the interrelations and vagaries inherent within them however, and in what amounts to a summary of the argument developed in the chapter, are illustrated as follows. While I may consider sense data (that which we [I suppose] see, hear, feel, smell, taste) as implying an external world, my consideration which leads to that conclusion makes the conclusion subjective. The mere sense data from which my consideration derives are meaningless to me without that consideration. Meaning is rendered by consideration of the relation to experience, context, implication, purpose. Each of these is a personal judgement; meaning is subjective. The observation of a leaf moving on the branch of a tree may enable

the individual concerned solely with the achievement of an objective reality to say "it moved", and he may argue that, since everybody saw it move (didn't they?), it really moved. And nobody would argue with him (would they?). But that is all he can say; *how* it moved, in the sense of the attribution of quality, is objectively beyond him. Even the statement 'I am a realist' is inescapably subjective. I cannot consider something separate from my consideration of it. Consideration generates models, theories, simplifications, which we use to understand the world as we perceive it. The so-called realist theories of Durkheim, Spinoza, Whitehead, and so on are inescapably subjective, as at least Whitehead admits (see Chapter VIII; I cannot comment on Durkheim or Spinoza). And, since these theories patently existed, in the first instance, in the separate minds of their creators, they are also inescapably idealist. Which leads to the position that the only reality that I can know consists of my ideas. Admittedly, everything else (such as "there is a tree there and a leaf on it which is moving") may well be an extrapolation, but this implies consideration of the sense data prehended which, as has been said, is subjective. It follows that idealism is a realist position in the sense that such a position is real to its advocate and, more importantly, realism is idealist in the sense that such a position ultimately belongs in the mind of the individual who advocates it. Objectivism, in its turn, is subjectivist, since it is a position held by an individual.

## **TOWARDS A THOROUGHGOING IDEALISM**

The resolution of these issues does not lie entirely in any resorting to either purely ontological or epistemological grounds. This is because the former is in essence too far-fetched, since it would provide that *the item that is* cognised is of the mind and imply there is no reality which exists outside ourselves, while the latter is too obviously the case, providing as it does for *the item as it is* cognised to be of the mind and implying that what we can know is dependent on mind involvement (Rescher, 1973:16-17). Furthermore, the ontological position is not generally espoused since, as was mentioned in the definitions listed above, idealism does not necessarily question the *existence* of reality but, rather, the *nature* of reality. Thus, idealism is more in direct conflict with materialism, that doctrine "according to which everything is material or physical" (McLaughlin, 1995:599) than realism (Rescher, 1992:188).

This may be shown by consideration of realist positions, which state that "real things just exactly are things as philosophy or as science or as common sense takes them to be" (ibid:189). As such, although it does not accept mind-transcendence (ontological idealism), realism does rely on 'reals' being inherently knowable to be taken as real, which amounts to an acceptance of epistemic idealism (ibid)<sup>1</sup>.

The result of this is that although the realist may argue "There is one thing I cannot doubt. That is that [things] and relations I now notice there are there" and would remain the same even if there were no minds to cognise them (Garnett, 1965:46), he is in trouble when asked to suggest *what it is* that would remain the same (Rescher, 1992:190). This is because the conclusion that things exist *in the way they do*, that is "as a collection of physical particulars, characterisable by a descriptive framework of empirical properties, located in space and time and interacting causally" (Rescher, 1973:13) arises from his own personal known experience, which is, he accepts, mind involving (Garnett, 1965:46). The result of this mind involvement is not only that our minds think of things, but that "we standardly do think of them in mind-invoking terms of reference", since while the item thought may be mind-remote the item *as it is* thought is not (Rescher, 1973:12).

The apparent difficulties involved in accepting an "idealist alternative [as an] explanation of human behaviour [which] demands a mode of understanding quite different from that which is appropriate to... non-human behaviour" (Livingstone and Harrison, 1981), are resolved, therefore, by drawing the following conclusion. First, items can and do exist outwith our consideration of them (an ontological question). This is only possible as a conclusion, however, *following* our consideration of that possibility and by extrapolation from our mind-invoking (as well as mind-involving) experience. Second, what we can and do know about such items (an epistemological question) depends upon our perception of them and all that may entail. It is useful, therefore, to adopt Rescher's distinction between

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<sup>1</sup> It is the recognition of this fact which leads Charles Hartshorne, while at odds with his contemporaries over the issue, to describe Whitehead's "thoroughgoing realism" (Whitehead, [1927] 1958:10) as, first and foremost, "idealism" (Hartshorne, 1991:574). As a related point, and while beyond the scope of this thesis, it is worthwhile noting that the philosophical methods and illustrations used by Whitehead to arrive at his thoroughgoing realism bear interesting comparison with those used by Rescher to arrive at his Conceptual Idealism (Rescher, 1973). It is perhaps no coincidence that, from the number of encyclopaedic citations on the subjects for which he is responsible, Nicholas Rescher is the authority

(1) the item that is cognised and (2) the item as it is cognised and note that, since "prime facets of natural objects, *as we conceive* of them, (and thus not necessarily as things in themselves, whatever *that* might be) are such as to be construed in terms whose adequate explication calls for a reference to minds and their capabilities" (Rescher, 1973:24), "the only conceptual path toward the very specification of (1) goes by way of (2)" (ibid:16-17).

#### *Further Thoughts on the Locus of Trust*

Having established an idealist epistemological position, focussing primarily on conceptual argumentation for the purpose of addressing cognisant human behaviour, consideration must now be given to just exactly what it is that this position allows us to conceive. Davidson notes three separate considerations with which idealism attempts to come to grips empirically. These may be summarised as: (i) Subjective, concerning our knowledge of our own minds; (ii) Intersubjective, concerning our knowledge of other minds; and (iii) Objective, concerning our knowledge of nature (1996:155). None of these are to be confused with the related but different considerations of objective and subjective knowledge as seen ostensibly from *outside* an idealist position, which are discussed further below in arguments regarding the inherent subjectivity of research<sup>2</sup>. With regard to the earlier discussion of trust as set out in Chapter I the applicability of an idealist position to a thesis concerned as it is with an exploration of trust is now readily apparent for, in the final analysis, trust is an esoteric phenomenon belonging in the minds of individuals.

While it will be clear from the three definitions of idealist concerns given above that intrapersonal trust is inherently Subjective, interpersonal trust might be construable as Inter-subjective, were it not for its residing within and being the possession of one individual regarding his disposition *towards* another individual (see Chapter I). In this respect, interpersonal trust may be seen to follow G.H. Mead's explanation of a subjective experience (1934:166-198), being that which resides in one

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among his peers on both idealism *and* process metaphysics - the latter of which Whitehead is generally acknowledged as the greatest exponent (see also Chapter VIII).

individual to which the individual alone has direct access, which requires another individual as a stimulation for it, which may also be communicated in behaviour towards the society of individuals generating that atmosphere between them to which each responds, and which may be reflected upon by the individual as a separate experience of self-as-was a moment ago (general trust) and to which the self-as-now reacts (situational trust). In idealist terms, therefore, trust is Subjective. Its study in others, on the other hand, requires the adoption of an Inter-subjective idealist position, the implications of which will be discussed later in the chapter. It is first necessary, however, to consider the notion of subjectivity even as rendered from outside an explicitly idealist position, since this in turn governs in what light both theory *and* data may be viewed.

### **RECOGNISING INHERENT SUBJECTIVITY**

So far, the discussion has sought to develop an argument that "the only reality with which we inquirers can have any cognitive commerce is reality as we conceive it to be. Our only information about reality is via the operations of mind - our only cognitive access to reality being through the mediation of mind-devised models of it" (Rescher, 1992:190). It is a generally accepted point, however, that the orthodox scientific method of research as espoused by Popper demands an approach which emphasises a realist position, the need for absolute objectivity and critical falsification. This may be seen in his insistence on the achievement of objective knowledge, that is "knowledge without a knowing subject" (1979:108) through a "method of science [consisting of] bold conjectures and ingenious and severe attempts to refute them" (ibid:81). How might it be possible, therefore, to reconcile this with an idealist position which recognises the role of the mind in determining the models used to engage in scientific enquiry? An answer is that it is in part possible by recourse to a brief examination of some of Popper's arguments, as set out in *Objective Knowledge*, and a discussion of the distinction between subjectivity and objectivity, as follows.

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<sup>2</sup> For the sake of clarity, when meant in their strictly idealist sense, Subjectivity and Objectivity are hereafter spelt using upper case. When referring to subjectivity and objectivity in the broader sense, lower case will be used.

The involvement and importance of the inquiring mind in Popper's thesis is apparent from the outset, and reveals at least an initial acceptance of the inevitable subjectivity such mind-involvement brings to all research<sup>3</sup>. This may be seen in his argument regarding closed physical systems, implied by an objective scientific explanation, in which he argues such views of the world are "unsatisfactory... [since] on such a view of the world human creativeness and human freedom can only be illusions" (ibid:254). Nevertheless, it is the notion of sceptical falsifiability which prevails, carrying with it a striving to escape from common sense understanding toward objective conjectural knowledge by theoretical refutation (ibid:74-76). It is argued, however, that the more positively constructive notion of 'demonstrable applicability'<sup>4</sup>, consisting of ongoing application and refinement of rigorously developed theoretical explanations, is more appropriate to research aware of the need both for theory as a mechanism for understanding and for development of understanding by virtue of ongoing and iterative study.

Yet such an approach is itself not altogether inconsistent with Popper's recognition that "all acquired knowledge, all learning consists of the modification of some form of knowledge, or disposition, which was there previously, and in the last instance of inborn dispositions, [whereby]...existing knowledge is changed in the hope of approaching nearer the truth" (ibid:71). Where it differs, however, is in its acceptance of the subjective nature of all knowledge, for it recognises the veracity of the biologist C. H. Waddington's description of "a puppy going to sleep on a stony beach - a 'joggle fit', the puppy wriggles some of the stones out of the way, and curves himself in between those too heavy to shift - [as] the operational method of the scientist, as he tries, with his blunt instruments - intellectual and experimental - to come to grips with the sudden and unexpected world" (1969:99). In other words, the background of the scientist, his nature and his personal relationship with the world he is studying determines his approach to the research he undertakes, and the amount and nature of 'data interference' he both can account for and must accommodate. This leads Waddington to suggest that "our scientific knowledge is not nearly so objective as had previously been thought" (ibid:108). Thus, "even in science, the object of research is no longer nature itself but man's investigation of nature... The transparent

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<sup>3</sup> I am grateful to Simon Harris for pointing this out.

<sup>4</sup> I am grateful to Richard Harrison for suggesting the use of this phrase.

clarity of mathematics [for example] no longer describes the behaviour of elementary particles but only *our knowledge* of this behaviour" (Heisenberg in Waddington, 1969:108; my emphasis). As a result, Waddington claims that "science has, by an act of intuitive imagination, to seize on some new aspect of... qualitative characters before it can decide what is worth measuring" (ibid:100). (How much more so, then, for social science!)

Popper's striving for objective knowledge and the rejection of common sense understanding is therefore fruitless, for it neglects the fact that, even admitting that the objects perceived and their inter-relations are there and even ignoring the fact that the "statement of this conviction is a tautology..., any attempt to state *what* I notice is... beset with uncertainty" (Garnett, 1965:46). This is because "the items of experience found in tactual, thermal and gustatory sensation - the hardness, roughness, warmth, taste and so forth - are not experienced as in the thing perceived, but as in our own bodies... So what we have and notice in these tactual feelings and tastes, if we go on to try to find out something more about them, will constitute an observation only of our feeling, taste and bodily conditions, not of another physical thing" (ibi:54). In other words, as was discussed from a different standpoint, that of arguments for idealism above, it *may* be possible to answer objectively 'what is it?' but it is only by a logical extrapolation, what Garnett terms "the return to common sense" (ibid:57 - c.f. Popper above) that we are able to answer 'what is it like?' in anything approaching objective terms. Popper's striving to escape from common sense may therefore be argued to be a striving to return to 'forgetful common sense' in the requisite objective ascription of qualities to objects.

Remembering the subjective, on the other hand, inevitably leads us to "run into the self-referential prison walls of ourselves and the culture we are part of" (Olsson, 1980:41e, in Harrison and Dibben, 1996). This is because "whenever [we] talk *about* culture, [we] must talk *in* culture... And so it is that any social scientist is handicapped by the methodological praxis [i.e. his discipline's axiology] which requires him to be more stupid than he actually is," by forcing him to conveniently forget the influence of his own inescapable subjective input (Olsson, 1982:227). Such forgetfulness allows him to ignore the fact that "there is no objective reality to reflect upon, for what appears is essentially a



reflection of the reflector's subjective self-awareness of that reality" (ibid:228). This fact was recognised by Weber, who argued that "there is no objective analysis of... social phenomena independent of special and one-sided viewpoints..." (1949; in Hughes, 1990:136-7). It has been referred to also by Foucault who described it as "the problem of the subject" (1970:xiii), and begs the question "can one speak of science and its history without reference to the scientist himself..., the particular form of his thought?" (ibid). Striving in vain for objectivity "indulges rather than stifles the urge to do the impossible and climb out of one's mind" (Sorell, 1996:11). As Bohr notes, any subsequent indulgement leads to a failure to recognise that "... observation of phenomena will involve an interaction with the agency of observation" (in Plotintsky, 1994; Chia, 1996:80). The "attempt to keep oneself, even as an active observer, out of one's construction, and to hold on to vestiges of objectivism [therefore amounts to] naive... constructivism" (Steir, 1991:4, in Chia, 1996). Thus it may be seen that attempts to circumvent the subjectivity inherent in *all* research only lead to the researcher's self-deception. The implication arising out of this fact has been succinctly stated by Whitehead in his comment regarding philosophic thought, whose "final outlook... cannot be based upon the exact statements of the special sciences. The exactness is a fake" ([1941] 1991:700).

## **RECOGNISING THE PRIMACY OF THEORY IN INQUIRY**

Yet the implications of Waddington's puppy metaphor are perhaps even greater; such qualities as may be identified and explained in terms of theories and models are, in one sense, the product of the researcher's intellectual, and even cultural background. The importance to intellectual categorisation of cultural norms, for example, has been powerfully demonstrated by Foucault in his examination of the Same and the Other by considering Borges' now-famous (but un-referenced by Foucault) classification of animals from a "certain Chinese encyclopaedia" (1970:xv-xxiv) which, for Foucault, broke up "all the ordered surfaces and all the planes with which we [Westerners] are accustomed to tame the wild profusion of existing things..." (ibid:xv). It follows that "the starting point [for understanding]... must be a recognition, fundamentally, that the world of our models and theories is a manufactured world in which objects of study and entities are created not represented" (Harrison and Dibben, 1996). Even

attempts at theorising are themselves determined, therefore, by the subjective input of the researcher, and previous researchers. In engaging in the act of inquiring, that act of recording observations and structuring them "so that things not seen, or only suspected, become clearer and more convincing... with such evidence and argument that a particular description is acknowledged to stand - at least for the moment" (Gould, 1982:72), there is "no cognitive access to [data] that is independent of theory" (Alston, 1993:61). Put another way, as Fay argues, "descriptions are shot through with theoretical material, are indeed (low level) theories" (1996:76).

This is not to say that theory is infallible, for "there is not a single theory that is not in some trouble or other" (Feyerabend, 1993:50). Rather that the complexity of the world as we perceive it makes it incomprehensible without a theoretical framework of some sort that allows concentration upon identified elements and relations. The role of theory and its relationship to observations to which it may be applied has been further explained by Weiss (1968:238-239). Following a review of Aristotelian and classical forms of science, Weiss suggests that "theories... in effect tell us the analytical details of an embodied and active nature. The generality of a theory enables one to encompass more than one kind of nature... If we start with a theory, we have an abstract scheme involving the use of terms which [as yet apparently] have no experiential referent... But it is hard to see how one could know with what observable elements... the theory should be associated, unless, right from the beginning, one had seen the theory to involve some kind of analysis of the natures involved... The association [therefore] goes from the observational data... to the explanatory theories."

Thus, while the importance of theory to inquiry is paramount, the acceptance of theoretical primacy does not permit one to ignore the observations which it may be used to comprehend. As Rescher notes, theoretical concepts "rest in an essential way on an empirically based, fact-laden view of how things work in the world... [such that] not merely the applicability but even the very viability of these concepts calls for realization of certain empirical circumstances" (1975:120). The existence of such an empirical background has far reaching implications, for it means that "our concepts are not framed to suit every *possible* world but in significant measure adjusted to suit *this* one..." (ibid). The importance of

this statement cannot be underplayed, for it bears two crucial points. First, as has been argued already, improvement in understanding is enabled by theoretical refinement following empirical examination. Second, the view of the world to which we apply theory is in some part a construction generally appropriate to the theory which is applied; categorisation (e.g. small businesses) and frames of reference (e.g. interpersonal relations) by which the world is sub-divided for analysis are human impositions such that the more we try to "apprehend nature as it is..., the more nature must appear to us through quintessentially human constructs. This, the irreducible subjective side of knowledge, permits such epigrams as 'nature imitates art' or 'nature is a construct of science'" (Tuan, 1977:31; in Harrison and Dibben, 1996). Not only this, but there then remains the need to avoid the fallacy of representational sameness (Millikan, 1991 and Harrison and Dibben, 1996) and remind ourselves in the process of application that the entities comprising the theory are constructs, and that they therefore at best *represent* nature as we apprehend it<sup>5</sup>. An account which attempts to explain a phenomenon by recourse to a theory utilises that theory not only as a tool by which to come to grips with nature. but also as a means by which to navigate a way through that world of observations which it delimits. In this sense, then, theories might usefully be described as 'true fictions' since, while they may appear to the researcher to exist following their successful application, as a result of their apparent explanatory power, they are always only ever *as if* observed reality.

## **THE PRINCIPLE OF DEMONSTRABLE APPLICABILITY**

It follows from this discussion that speculative inquiry is concerned with the achievement of theoretical refinement as a means of understanding empirical observation, and may be considered to be embodied in the following statement. To be cognitively meaningful, a theory must be either (1) logically true (tautologous) or false (contradictory); or (2) in principle demonstrable by empirical illustration (cf. Ricketts, 1995:416-417). This may be termed the principle of demonstrable applicability. Since tautology and contradiction, while undeniably rendering cognitive meaning, are unhelpful in providing theory

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<sup>5</sup> The detailed complexities of the way in which representational sameness may come about, how it may be countered and how it may be resolved are beyond the scope of this thesis. See Millikan (1991) for a rigorous philosophical discussion.

generally applicable in substantive research, demonstrable applicability is understood to be the principle whereby a theory's value is assessable not by whether it is falsifiable but, rather, by whether it enables understanding of the topic which it hopes to explain, either in the first instance of its application or as a result of its subsequent refinement. Application may be achieved either in direct field research or (more likely in the instance of its first application) to a theoretical case. Thus, the importance does not rest *prima facie* on its accuracy, but on its potential applicability and subsequent capacity for further refinement. The principle of demonstrable applicability as stated here is therefore construed solely as a proposal for investigators interested in evaluating the relative accuracy of a theory or theories, in terms of their explanatory power, and restricts itself to empiricist language whose non-logical theories (i.e. theories containing isolated statements which may be considered 'nonsense' in terms of philosophical logic) are demonstrable.

The premise underlying demonstrable applicability, patently, is that any consideration of data is impossible without theory; "without some initial system, without a first guess to which we can stick unless it is disproved, we could indeed make no sense of the milliards of ambiguous stimuli that reach us from the environment" (Gombrich, 1984:4; in Jamieson, 1994:21-22). Theory is always and immediately brought to data by the individual considering them. This may be explained yet further by reference to Bergson's famous explication of the nature of the comic, as detailed in *Laughter* (1913). Bergson's consideration of a man running along a street who suddenly stumbles and falls, and of a man whose daily rituals are bespoiled by a mischievous individual who, to the audience's prior knowledge, has filled the man's ink bottle with mud (1913:8-9), reveals the importance of individual theorizing in our daily lives, for the comedy which lies within the pictures we create from these two descriptions comes about, as Bergson's explorations reveal, through the absolute contradiction of the expected in the former, and the absolute extension of the expected in the latter. Expectation arises from the simplification and resolution of multiple possibilities in an effort to reduce the complexity of the world through which we navigate (cf. Luhmann, 1979). Our expectations are our theories, their contradiction or extension is a source of befuddlement in the comic individual and laughter in the audience. It follows from this that in order even to function, we invoke theoretical simplifications of complexity and act on the resulting

expectation, confirmed (or otherwise) by repeated application throughout our daily lives. Understanding requires the personal development of models, frames of reference, theories, in short the subjective construction of meaning. Whereas it may be possible, therefore, to understand a circumstance as a result solely of theorizing, without ever being directly exposed oneself to primary data concerning the particular circumstance that is the subject of one's enquiry, it is not possible to understand a circumstance as a result solely of the uninformed study of data.

We are thus left with a need to accept our subjectivity not only in our general approach to the field of study but also in the theory building which enables us to come to grips with that field of study. When combined with acknowledgements regarding subjective influence, however, this acceptance does not render findings any less fruitful. This is because, while the crucial attitude regarding the use of theory and its application to data is significantly different, the specific techniques utilised in the attainment of demonstrable applicability are adopted for reasons similar to the 'objective positivist' method (i.e. the reduction of perceived errors). It follows that the broad purpose is "to push the ideas as far as they will go in order to see what they will and will not do" (Hughes, 1990:162). As Waddington again notes, "to the biologist [a pure scientist]..., and to the painter [an artist], improvement is a perfectly valid option" (1969:107). An underlying aim of the rest of this thesis, therefore, is to illustrate how an approach focussed on demonstrating the applicability or otherwise of derived theory may lead to a greater understanding of a complex social phenomenon. Rather than seeking the myth of objective knowledge achieved through theoretical refutation, therefore, the purpose of the research detailed in this thesis may be usefully summarised as the seeking of subjective understanding achieved through theoretical refinement.

## **RECOGNISING THE PRIMACY OF PROCESS OVER STASIS**

Such theoretical refinement implies change. Yet the objective method, striving for "the highest precision and reliability" (Feyerabend, 1993:39) often brings with it the tendency to forget the influence of change in the world in the same way that it brings the tendency to forget the primacy of mind-

involvement, the subjective and theory. The incorrectness of scientific foundational assumptions regarding stasis - often embodied in over-zealous demands for numerical measurement - over and above the processes which underpin them reach as far back as Parmenides' 'being is'. That change underpins what we see in the world may be simply recognised with the adoption of a different time-horizon; what seems the same over the course of a day (such as the desk upon which this is being typed and the keys of the computer keyboard which enable the ultimate translation of intended meaning of thoughts via moving fingers into black marks on a page) are changing (wearing) over the course of a year. This recognition is a well-developed seam of inquiry in philosophy, beginning with Heraclitus' 'you never step into the same waters of a river twice'<sup>6</sup>, continuing through Aristotle's *Physics* (1995:83-133) even though he was generally more interested in things and substances, and on through the work of Leibniz, Hegel, Peirce, James and Bergson. More recent exponents (i.e. post-First World War) include Dewey, Whitehead, Lowe, Sheldon, Hartshorne, Weiss, and Rescher. Its primary consideration is not with things in themselves, but *occurrences* of things, events, processes; the ongoing development of things and relational encounters between things. It is therefore concerned not with 'being is', but with 'is-ing be', from which 'being is' is an extrapolation<sup>7</sup>. It is the forgetting of the extrapolation which results in 'being is' that has led to an unfortunate trend within the social sciences of an increasing use of the term 'process' without sufficient understanding of its philosophical underpinnings (Vayda et al, 1991).<sup>8</sup>

It follows from this that it is therefore necessary to understand the reasons not only for the forgetting of the implications and impact of process itself but also for the general emphasis on static conceptualisations of the world. This has been coherently explained by Bergson in his seminal work *Creative Evolution* (1911). Indeed, the clarity of his exposition is such as to justify the following set of

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<sup>6</sup> While Heraclitus' "dis es ton auton potamon ouk an embaies" can perfectly well be translated 'you never step into the same river twice', it would be better interpreted as meaning 'you never step into the same waters of a river twice'. I am grateful to Eric Matthews for pointing this out. For yet another interpretation, see Barnes (1987:117).

<sup>7</sup> I am grateful to Robert Chia for pointing this out.

<sup>8</sup> As an obvious example, most of the work purporting to discuss 'process' while using models containing arrows and boxes often ends up focussing more on the states contained within the boxes, rather than the processes contained within the arrows, and being satisfied in so doing; that is, in Loasby's "equilibrium and evolution" terms (1991), they tend to discuss equilibrium far more than evolution. On the other hand, a true process view always seeks in the end to consider the complex contents of the arrows, in order to understand more fully the relatively simple (often artificially delineated and 'arrested') contents of the boxes; that is 'evolution, and equilibrium' (c.f. Chapters III, V and VIII below).

lengthy extracts, which will serve as they stand to clarify and confirm the argument for the primacy of process far more lucidly than any attempt at their paraphrasing. They will also illustrate, in passing, how quantitative approaches are underpinned by considerations of being, rather than becoming, and thereby show how qualitative approaches are more appropriate than quantitative ones in the research of processual phenomena:

"If we pass (consciously or unconsciously) through the idea of the nought in order to reach that of being, the being to which we come is a logical or mathematical essence, therefore non temporal. And consequently a static conception of the real is forced upon us" (1911:314-315). "It is no use trying to approach [temporal] duration: we must install ourselves in it straight away. This is what the intellect generally refuses to do accustomed as it is to think the moving by means of the unmovable... The function of the intellect is to preside over our actions. Now, in action, it is the result that interests us; the means mean little provided the end is attained. Thence it comes that we are altogether bent on the end to be realised...; and thence it comes also that only the goal where our activity will rest is pictured explicitly in the mind: the movements constituting the action itself either elude our consciousness or reach it only confusedly" (ibid:315).

"From our first glance at the world, before we even make out *bodies* in it, we distinguish *qualities*... Each of these qualities, taken separately, is a state that seems to persist as such, immovable until another replaces it... Yet each of these qualities resolves itself, on analysis, into an enormous number of elementary movements... The permanence of a sensible [i.e. sense-able] quality consists in the repetition of movements. The primal function of perception is precisely to grasp a series of elementary changes under the form of a quality or of a simple state, by work of condensation" (ibid:317). It is "in the continuity of sensible qualities that we mark off the boundaries of bodies. [Yet] each of these bodies really changes at every moment... Even if we regard the quality of a stable state, the body is still unstable in that it changes qualities without ceasing" (ibid:318)<sup>9</sup>. "The material world...[is] a simple flux, a continuity of flowing, a becoming" (ibid:390).

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<sup>9</sup> This is what Heraclitus meant by "we step and we do not step into the same rivers" (in Barnes, 1987:117). See also footnote 6 above.

As a final example, the relation between process and stasis in entrepreneurship may be understood by consideration of the role of exploration and exploitation in the entrepreneurial act (/process): "A processual view depicts the exploitative as a 'stabilised' (paused and concentrated) moment of the exploratory, rather than considering exploitative and exploratory as separate... events" (Kodithuwakku and Dibben, 1996). In short, therefore, "process is the most pervasive, characteristic and crucial feature of reality" (Rescher, 1996:27-28). It follows that "process and its ramifications affords the most appropriate and effective conceptual instruments for understanding the world" (ibid). Suffice to say that these conceptual instruments include an explicit inclusion of time, or temporality in any theory developed. Empirical instruments, in their turn, must also provide access to change and, in the light of Bergson's discussion detailed above, it follows that qualitative approaches or, at worst, *ongoing* numerical measurement techniques are most appropriate in this regard. Thus, it may be seen that a processual view calls for "just appreciation of the world's realities [by] prioritizing [but not over-emphasising to exclusion] activity over substance, process over product, change over persistence [and] novelty over continuity" (Rescher, 1996:31).

#### **IMPLICATIONS FOR THE STUDY OF TRUST IN THE SMALL BUSINESS**

The implications of each of these separate discussions for the study of trust in the small business may be detailed as follows, with consideration first of idealism and subjectivity, then of theory, and lastly of process. As was explored briefly earlier, while trust is, in idealist terminology, an inherently Subjective phenomenon, its study in others requires the adoption of an Inter-subjective idealist stance. This is because, as a result of trust being Subjective, the study of trust in and between others requires us to come to an understanding of other people's minds (Davidson, 1996:155). This may be further explained by reference to Schutz's work on subjective and objective meaning (1974), as follows. The earlier conclusion that subjectivity is inherent in all research, and that personal meaning is originally conferred through the "intentional operations of consciousness" (Schutz, 1974:46), leads to the problem of how to access the meaning of others. This is possible through subjective interpretation by the



researcher, using interpretive schemata (i.e. models and theories), of another individual's behaviour as expressed, for example, through speech. The "interpretation consists in taking the utterance as a sign that [the individual] is undergoing certain conscious experiences", of which trust towards another would be an example (ibid:43). It follows that the interpretive schemata are relative to the researcher and that, "in the last analysis [the researcher is] not interested in what [the individual] has to say. Rather, any observer of the social world is interested in interpreting [the] utterance here and now and in such and such a manner" (ibid), where 'here and now' is determined by the context in which the utterance is set and 'in such and such a manner' is determined by the interpretive schemata brought to the utterance by the researcher, as well as the aims of the project concerned.

It is for this reason, therefore, and bearing in mind all that has been said already about subjectivity and objectivity and about theory and data, that explorations of Subjective dispositions, such as trust, can *in the end* only ever be personal to the researcher, however 'objective' the techniques used (be they qualitative *or* quantitative) and regardless of the precautions taken. There is no getting out of this fact; it is better to admit it and so avoid self-deception. The best that may be achieved is 'subjective objectivity', that subjective view which arises from awareness of the details of the topic as set out in a well-considered theoretical position and as applied to data collected with keen regard to the limitations of the techniques used, themselves thoughtfully considered. The interpreted meaning relating to the behaviour of the individual can only ever be the subjective understanding of that behaviour by the observer(s). The observer simply lacks the necessary and "self evident starting point which is available to the actor. All he can do is start out with the... meaning of the act [or utterance] as he sees it, treating [it] as if it were, without question, the intended meaning of the actor" (Schutz, 1974:38).

The value of the observation, checked and qualified by suitable precautionary means in order to best avoid misinterpretation (of which more will be said, as appropriate, in Chapters IV, VI and VII) comes in its relation to the theoretical scheme brought to it and the meaning rendered to the observation (and the theoretical scheme) through the comparison. It is this secondary meaning, belonging to the researcher and shared with his audience (one of whom may be the observed individual - for an example

of this see Chapter VI), which is of final importance to a study aimed at exploratory and explanatory understanding. A requirement for meaningful explanation is theory-data and data-data triangulation as validation (Bryman and Burgess, 1994:222; Silverman, 1993:156-158; Strauss and Corbin, 1990:108-109 and Hammersley and Atkinson, 1995:230-232). Demonstrable applicability involving, as has already been stated, iterative comparison of theory and data, enables the continued gathering of triangulatory evidence when combined with the use of a variety of techniques in a number of separate yet related field settings. This is especially the case when (as in the work presented in this thesis) each stage of the field study research is chosen and carried out in response both to research questions raised from theory and to issues raised by the previous stage, thereby providing the multiple sources of appropriate data collection necessary for triangulation. Each of the field studies, being comparable with each other having also been selected with due regard to the established epistemological framework of the research, legitimate to the best degree possible both the theory applied and the findings derived. This, in turn, is due to the fact that it is the *ongoing critical comparison* of the resulting findings of the various stages of empirical research, assuming this is confirmatory and not contradictory, which provide in themselves the requisite triangulation. In the event of contradiction, then the path toward further theoretical refinement is made clear.

Yet it also follows from the discussion of process above that a prerequisite for the successful adoption of a conceptual idealist, subjective, theoretical line of inquiry for the study of interpersonal trust is not only a recognition of the processual nature of the phenomenon but also, as a result of this recognition, the adoption of an analytical stance which explicitly concerns itself with its processual nature. The procedure of ongoing critical comparison of theory with data for the purposes of theoretical refinement, as embodied in the principle of demonstrable applicability, satisfies this prerequisite by allowing change within the theory throughout the course of the study. However, the explicit acknowledgement of the primacy of process over stasis also requires flexible research instruments capable of accessing the process of trust development over the course of a number of interactions, and even during the course of a single interaction. Essentially, therefore, this puts an emphasis on qualitative approaches consisting of, for example, semi-structured interview techniques, ethnography, textual

analysis techniques for the purpose of empirical comparison and, ultimately, the adoption of a theory of process derived from a coherent metaphysical scheme for the purpose of theoretical comparison, of which more will be said, as appropriate, in Chapters IV, VI, VII and VIII respectively.

## CONCLUSIONS

This chapter has briefly considered the relationship between idealism and realism, between subjectivity and objectivity, between theory and data, and between process and stasis sufficient to establish the metatheoretical position of the thesis. It has argued that realist conceptualisations are at bottom idealist, that subjectivity inevitably colours all research, that theory is essential as a means by which to simplify the world we perceive sufficient for us to be able to come to an understanding of it and, relying unashamedly on Bergson's explanations for the most part, that process - change - underlies everyday static conceptualisations of the world. In the light of these arguments, the chapter also confirmed the previous chapter's construal of trust as a subjective phenomenon by suggesting interpersonal trust may be best considered as a Subjective phenomenon. It also argued that, as a result, research into interpersonal trust within the small business setting would require the adoption of an Inter-subjective stance. Lastly, the chapter considered some of the implications of the various positions adopted for the carrying out of research as reported in the remainder of the thesis. It argued that a useful way of furthering one's understanding of the role and effect of interpersonal trust consisted of the acceptance of subjectivity and the consequent adoption of an approach described as demonstrable applicability, whereby improvement in understanding is achieved by the iterative comparison of theory with empirical data gathered from separate yet related field studies, thereby enabling considered and triangulated theoretical refinement.

In sum, therefore, to adopt the nomenclature of Burrell and Morgan (1992), it follows from this exposition that, broadly speaking, this thesis holds an interpretivist position which consists (a) ontologically of nominalism, in the sense that the world is the product of the individual's mind; (b) epistemologically of anti-positivism, in the sense that knowledge is soft and personal; (c)

methodologically of ideography, in the sense that the thesis is engaged in the search for an understanding of subjective experience. It follows from this first that its theories are largely constructed from the standpoint of the individual actor, as opposed to the observer of action, and second that it views social reality as an emergent process (ibid: 253). This is possible due to the Subjective nature of the phenomenon under study. The exact position adopted with regard to the role of theoretical refinement as a means toward greater understanding of complex, esoteric social phenomena that has been argued for may be summed up in the following four premises, which entirely govern the research undertaken throughout the thesis.

i. All theory is in the end subjective - belonging to and constructed by the individual researcher(s). In thinking, the individual derives generalisations, principles, models (theories) in an attempt to come to an understanding of that 'reality' (data) which he perceives. It follows that all 'reality' is subjective, that all data is meaningless without theoretical interpretation and, consequently, that all theories are therefore subjective interpretations of subjective perceptions. To consider any theory and any reality as objective is erroneous. Any tendency to conceive of separate objects while forgetting the subjective nature of that conceptualisation is a fallacious exercise in simple objectivity. It follows that;

ii. In engaging in an enquiry into the applicability of theory to reality, we can only attempt to eliminate those errors we perceive, and report what we see by way of an indicative illustration of our attempts to understand the topic under consideration;

iii. Theoretical validity lies in a theory's ability to simplify as accurately as possible the topic with which it is concerned, thereby improving our understanding of the complexities of that topic;

iv. The combination of the complexity of the world which it attempts to represent with its subjective nature (it being developed by an individual, or group of individuals) is such that, with careful selection of the study, a theory can be 'proved' to work and then 'proved' not to work, should one so wish. This principle lies at the heart of theoretical refinement - the process by which a theory is applied to different

(yet related) realities for the purpose of revealing its inaccuracies, and modified in such a way as to more accurately represent the realities to which it has been 'exposed'<sup>10</sup>. The value of theories comes from their refinement as mechanisms of understanding; theories are valueless if they do not aid our understanding of the topic to which they are applied.

It may be seen that this way of approaching research encompasses elements of both the research formats of multiplicative corroboration and structural corroboration identified by Tsoukas (1994:762), in that it engages in "a cognitive organization [of] social reality by constructing theories about the world and comparing them with empirical data" (structural corroboration) while, commensurate with this, "reflecting social reality by inter-subjective confirmation of certain phenomena" (multiplicative corroboration). While the position is undeniably outside the frame of reference of the orthodox scientific method, it is argued that it will allow for detailed improvement in understanding, enabling a genuine contribution to the knowledge base in the area with which the specific study to which it is to be applied is concerned. This approach to management research in the social sciences, in which all observations are understood to be necessarily theory laden, the observer-theory distinction is acknowledged to be implicitly blurred and, at the same time, there is an ongoing requirement for theoretical refinement to arise out of empirical observation is, however, not new (Chia, 1996:59-60). It has to a large extent been explicitly or implicitly adopted by a number of leading journals as the premise by which they undertake to review articles submitted to them for publication. It may, for example, be seen in the instructions to contributors provided by the Journal of Management Studies, which states that "our ultimate criterion for a paper's acceptability is that an informed reader is likely to learn something new from it and that it contributes to the development of coherent bodies of knowledge... Our only proviso is that each author should seek to maintain congruity within his or her own ontological, epistemological and methodological positions in the conduct and reporting of research" (in Chia, 1996:60).

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<sup>10</sup> It is of course necessary to ensure that only relevant data sources (and sets) are used to examine theoretical propositions, otherwise the conclusions regarding the explanatory power of the particular theory from which they are derived will be meaningless.

The research conducted throughout this thesis seeks to abide by these guidelines, and the four premises set out above. Accordingly, the next chapter will begin a further exploration of interpersonal trust with the development of a theoretical position which explicitly recognises the individual conceptual idealist position established in this chapter, before engaging in a series of empirical investigations, theoretical refinements and empirical re-examinations of the importance, role and effect of interpersonal trust development in a variety of the small business settings.

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## Chapter III

### *Theoretical Considerations*

*Philosophy is an attempt to express the infinity of the universe in terms of the limitations of language.*

Alfred North Whitehead ([1941] 1991)

The previous chapters introduced trust as an appropriate subject of study within entrepreneurship and highlighted the difficulties of achieving an adequately wholistic definition of the concept, before considering the philosophical presuppositions underlying the research with which this thesis concerns itself. A conceptual theory of trust was proposed, whereby interpersonal trust was construed as type of tacit knowledge which comes into play in order to compensate for any lack of other types of more explicit knowledge, and thereby reduces the complexity of the management process. This was in order to provide a wholistic location of trust within mainstream management theory, thereby overcoming the problems of locating an ill-defined concept. This conceptualisation provides a starting point for a more detailed discussion of trust, aimed at developing an applicable framework of trust types which, in turn, will enable an identification of what types of trust are at work in the small business. The main aims of this chapter, therefore, are to: 1) elicit and discuss criteria for distinguishing between types of situational trust that may be at work in the small business; 2) derive a theoretical typology of situational trust types applicable to the small business setting; and 3) suggest a set of identifying characteristics of each type for the purposes of empirical study. It is first necessary, however, by way of introduction, to briefly review the main argument regarding situational trust, and the relationship of general and basic trust to it.

#### *Reviewing Basic, General and Situational Trust*

The subject of trust has been studied by a number of disciplines, each focusing on particular elements of the concept. As conceived by psychologists, for example, trust may be seen as a personality

trait (e.g. Rotter, 1967), while for sociologists it has been interpreted as an individual characteristic "applicable to the relations among people" (Lewis and Weigert, 1985), and observable from the behaviour of individuals in situations that expose "the individual to the probability of risk" (Worchel, 1979). Social Psychologists, on the other hand, focus on trust as "expectations set within particular contextual parameters and constraints" (Lewicki and Bunker, 1996). By combining these approaches, it was seen that trust has been broadly categorized into three layers. To recap, these are: **basic trust** (Marsh, 1995:56), the personality trait or disposition of an individual to be trusting or not; **general trust**, an individual's general tendency to trust, or not to trust, another individual; and **situational trust**, that which is dependent "on the situational cues that modify the expression of generalized" tendencies (Worchel, 1979), where one such situational cue may be the amount and quality of communication (e.g. Giffin, 1967).

As Meyerson et al (1996:191) note, "the development and maintenance of trust depends on a variety of subtle psychological processes and social mechanisms, operating convergently". Although an individual may trust another individual (or thing - see Chapter I for a discussion of the *locus of trust* notion) on the whole, he may not do so in certain situations and under certain circumstances. The three trust layers may therefore be seen to operate such that, in the absence of either general trust or general lack of trust, for example, an individual's basic trust (or basic distrust) influences his behaviour, and where general trust or general distrust exists, then an individual's basic trust (or basic distrust) is less important in determining his behaviour (e.g. Wrightsman, 1964, Worchel, 1979). It follows that, broadly speaking, general trust may be regarded as the experience borne of a collection of past situational trusts (Stack, 1978 and Luhmann, 1979). Of these trust layers, situational trust is consequently the most important, since factors influencing general trust are those that influenced the individual in past situations. Trust is therefore conceived as belonging solely to the individual, with any changes in situational trust occurring as a result, mentioned in Chapter I, of individuals "comparing, finding again and designating" (Stack, 1978:82) the situational cues received.

## SITUATIONAL TRUST CRITERIA AND MODELS

The above discussion suggests that two factors have a large bearing on situational trust: ability to comprehend the situational cues received in the particular situation considered (e.g. Kee & Knox, 1970), and familiarity with the individual in whom trust is being placed (e.g. Stack, 1978; Shapiro et al 1992)<sup>1</sup>. In order to understand the types of trust which may be at work in the small business, it is therefore necessary to explore both these factors as they have been conceived to operate as trust determinants in business organizations. Two different approaches to the identification of situational trust types, one concentrating on the role of situational cues and the other concentrating on familiarity with the other individual will be described. The approaches will then be compared, and the strengths and weaknesses of each approach discussed. In the light of this discussion, a theoretical typology of trust types combining the advantages of each will be proposed. The chapter will then conclude by deriving from the discussion a set of identifying characteristics for the types of trust proposed.

### *Trust Types and Situational Cues*

An effort to typologise trust in work relationships in respect of the influence of situational cues was recently made by Clark (1993; also Clark and Payne, 1995, 1997), who argues that previous "conceptualisations of trust have indicated that the presence of cues...in a particular situation will modify the expression of general trust" (1993:40). Drawing on the work of Mellinger (1956), Loomis (1959), Giffin (1967), Kee and Knox (1970) and Luhmann (1979), Clark therefore suggests that "measures of familiarity [with the situation] and the structure of information available may be usefully employed as criteria" for distinguishing between situational trust types (ibid). This information is seen to include such situational cues as: communication, in terms of quality and quantity; perceived loyalty, motives integrity,

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<sup>1</sup>It should be pointed out that other writers have identified other trust dualisms. For example, Currall and Judge (1995) emphasise the importance of reliance and risk in determining trust between organizational boundary role persons. Mayer et al (1995), on the other hand, highlight the importance of ability, benevolence and integrity as factors determining an individual's assessment of another's trustworthiness (see also *Trust Development and The Start-up Process*, below). This is regarded as a further indication of the diversity of accepted opinion regarding the determinants of trust.

sincerity and knowledge; and consistent behaviour and respect shown towards the truster (1993: 39, 42), which "all emerge as major builders of situational trust" (ibid:39).

A familiar situation is defined "as one which is known from regular association, or one with which an individual is well acquainted." An unfamiliar situation, on the other hand, is one with which an individual has a poor understanding of the circumstances, one of which he or she has little or no prior experience" (ibid:41). Situational cues, as was indicated above (see also Chapter I for a discussion) are seen to be the information available in a situation. Yet, as Clark notes, it is the *communication* of such information that is important since, for information to be acted upon, it must be received and comprehended.

Drawing on the theories of codification and diffusion developed by Boisot (1987), Clark argues that the majority of information received by individuals from others is not easily shared (diffused) because of the fact that different individuals structure and codify (and hence comprehend) information differently. Thus, it is often difficult to correctly interpret information which is not public knowledge (i.e. information which is highly coded, and thus generally recognizable), but rather is more private knowledge (i.e. information which is not in a generally accepted code). The less information is coded, the less it is comprehensible and the greater the scope for varied and subjective interpretations (Boisot, 1987:35), as regulated by previous experience of situations that elicit such information. Using the two notions of the amount of situational cues available and the degree of familiarity with the situation as analytical dimensions, Clark develops a trust typology identifying four types of situational trust (faith, dependency, confidence and reliance), each distinguishable by their different combinations of the two analytical dimensions required for each trust type to be present (see Figure 1 below).

Figure 1. *A Typology of Trust* (source: Clark, 1993, 1995).

<b>Degrees of Familiarity</b>	high	DEPENDENCY	CONFIDENCE
	low	FAITH	RELIANCE
		few	many
		<b>Situational Cues</b>	

Faith is described as the type of trust that exists in situations where the trusting individual has low familiarity with the situation and there are few comprehensible situational cues available. Thus, faith is taken to be the type of situational trust which "would depend almost entirely on the subjective base of generalised trust" (Clark, 1993:48). Clark cites as an example someone on an adventure course about to abseil for the first time, this being "a novel situation and cues as to the ability of the instructors will be few". The individual's decision to trust the instructors will be based on a generalized expectancy of survival from the fact that thousands of others have successfully abseiled in the past and, hence, faith that this fact will repeat itself (ibid:47).

Dependency is described as the type of trust found in situations where the trusting individual has high familiarity with the situation but where there are few comprehensible situational cues. Here an individual "depends on his experience in similar situations to guide his decision to trust". Clark cites as an example consultations with a GP, where situational cues may be difficult to comprehend since the GP is giving information in a form which is not generally recognisable (i.e. it is not highly coded). The patient therefore has to "generalize from the experience of previous visits to the doctor whether the diagnosis is favorable or not" (ibid:46). Thus it may be seen that the individual's general trust again (as

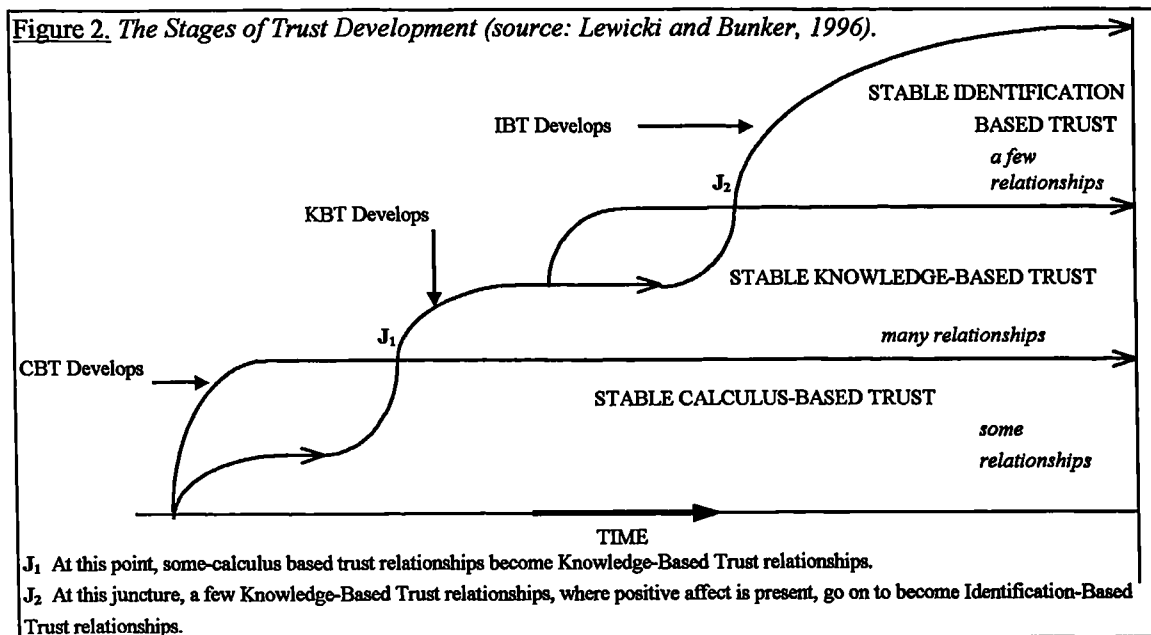
with Faith above) acts as the predominant situational cue in this case, because of the lack of comprehensible situational cues.

**Reliance** is described as the type of trust found in situations where the trusting individual has low familiarity with the situation but where there are many comprehensible situational cues. In such cases an individual will "rely on his ability to interpret the communications to guide his decision to trust" (ibid). Clark cites an individual in conversation for the first time with a financial advisor over where to invest a sum of money for best return. Assuming the individual is relatively numerate, the information available concerning the success of different financial plans will be well-structured and readily shared. However, given the novelty of the situation, the individual may well question whether or not "he is being steered towards a certain investment" as there may be "ambiguity in interpretation". The decision to trust may, therefore, be reduced to a state of reliance on the advice given. In this case, then, it is argued that general trust may play little part in the decision to trust, and other situational cues such as perceived integrity and openness, as well as the codified nature of the information itself will play more of a role as situational cues.

**Confidence** is described as the type of trust found in situations where the trusting individual has high familiarity with the situation and where there are many comprehensible situational cues. In this case, "an individual can make the most rational assessment of the situation... under well understood circumstances". Clark argues that such situations are likely to occur in a work situation and cites as an example an employee's decision to trust a superior, where "it is likely that the individual will have been in a similar situation on numerous occasions, is therefore highly familiar with the situation and can thus structure even poorly coded information, such as perceptions of the superior's personality traits, etc." (ibid:47). This is therefore a further example of a situation where the situational trust will be determined by the immediate situational cues, rather than the individual's general trust.

*Familiarity with the Individual and Trust Types*

In contrast to the typology proposed by Clark, which concentrates on the effect of situational cues, Lewicki and Bunker (1995, 1996) draw on the work of Boon and Holmes (1991) and Shapiro et al (1992) to propose a typology of trust in professional relationships which focuses on the familiarity with each other of the individuals involved in the relationship. They argue that trust "takes on a different character in the early, developing and mature stages of a relationship" (1996:118), as knowledge of the other person grows, and thus elicit three categories of situational trust. These are, respectively, Calculus-Based Trust, Knowledge-Based Trust and Identification-Based Trust, which "are linked in a sequential iteration in which the achievement of trust at one level enables the development of trust at the next level" (ibid), as described in Figure 2.



**Calculus-Based Trust** is the trust which exists between individuals in the early stage of a relationship, and "is an on-going, market-oriented, economic calculation whose value is derived by determining the outcomes resulting from creating and sustaining the relationship, relative to the costs of



maintaining or severing it" (ibid:120). Lewicki and Bunker argue that this is the most frequent form of trust in business relationships, where "the professional 'reputation' of the other side can serve as a 'hostage'", whereby "short-term gains from untrustworthy acts must be balanced against the longer-run gains of maintaining a good reputation" (ibid, and Powell, 1996:63). In this form of trust, then, the deterrence aspect of trust plays a greater part than the benefit aspect, and it is therefore characterized as being "partial and quite fragile". Lewicki and Bunker liken Calculus-Based Trust to chutes (snakes) and ladders, where "forward progress is made by ladder climbing in a slow, stepwise fashion; however, hitting a single event of inconsistency may 'chute' the individuals back several steps - or in the worst case, back to square one" (ibid:121)

**Knowledge-Based Trust** is the trust which exists between two individuals who know each other well-enough for the parties to have a history of interaction which allows each to make predictions about the other. It therefore develops from "data gathering in different contexts and seeing each other in different situations", and relies on regular communication and exchanges of information, and on the "understanding that develops over repeated interactions in multi-dimensional relationships". Thus, the development of Knowledge-Based Trust "is a fundamentally different process of relationship building and testing" to the development of Calculus-Based Trust (ibid), which Lewicki and Bunker equate to gardening where knowing what will grow in different soil conditions "comes from experimenting with different plants over the years". Knowledge-Based Trust, they argue, is not necessarily broken by inconsistent behaviour since knowledge of the individual may enable a rational explanation and forgiveness, "even if it has created costs" for the trusting party (ibid:122).

**Identification-Based Trust** is the trust which exists "because the parties effectively understand and appreciate the other's wants to such an extent that each can effectively act for the other... and substitute for the other in interpersonal interactions" (ibid). As knowledge and identification develop, the parties "not only know and identify with each other, but come to understand what they must do to sustain the other's trust" (ibid:123). Although at a different unit of analysis, Lewicki and Bunker give the examples of creating joint products, developing a collective identity, and co-location as being indicative

of Identification-Based Trust between companies, enabling the individuals to develop "a joint capability that is greater than the sum of its parts" (ibid:124 - see Chapter I for an explanation of the distinction between interpersonal and organizational trust).

## **MODEL COMPARISONS**

A number of differences between the two typologies are immediately apparent. These are concerned with the issue of trust determinants and direct comparability, and the issue of temporality and dynamism. It is clear that while Clark's typology deals with the role of situational cues in determining trust, Lewicki and Bunker concentrate on the development of familiarity with the trusted party. As such, the typologies in fact not only consider different things but also focus on different time periods, with Clark examining trust in a situation at any one time and Lewicki and Bunker considering trust development over time. Thus, while Clark's is a static typology, Lewicki and Bunker's illustrates the dynamic nature of trust.

A justification for the selection of Lewicki and Bunker's model for closer examination here is given by Ross and LaCroix (1996), in a review of seven trust models influencing negotiation theory and research, including the work of Kee and Knox (1970), Shapiro et al (1992), Hosmer (1995) and Mayer et al (1995) already alluded to (see above and Chapter I). Ross and LaCroix (1996) note that the power of Lewicki and Bunker's model when compared with other models comes from their development of "a dynamic framework [allowing] a detailed examination of each of the process... of trust formulation" (1996:333); theirs appears to be the only well-recognised model which considers trust as anything other than a state, and is thus most in accordance with the consideration, discussed in Chapter I and Chapter II, of interpersonal trust as a developmental processual phenomenon. For trust to be dynamically represented in Clark's typology, one would have to consider and compare a number of iterative situations. The lack of 'movement' within the Clark typology therefore prevents any prediction of the development of trust. Yet, unlike Lewicki and Bunker, the Clark typology allows for the impact of

different levels of situational cues in determining the trust present. Thus, it can be argued that it is more richly descriptive of any given situation.

Nevertheless, two further criticisms may be made of Clark's typology, concerning (a) the analytical dimension of "familiarity with the situation", and (b) the concept of comprehensible situational cues relying on the notion of codification. To take each in turn, it is argued that situational familiarity is intrinsically bound up within the comprehensible situational cue dimension. This may be explained as follows. Since trust is learned and re-enforced (Powell, 1996:63), increasing familiarity with a particular situation is itself indicative of increasing ability to comprehend the situational cues that the situation elicits. For example, familiarity with situations centered around the discussion of pricing policy would indicate the ability to comprehend situational cues (such as requisite profit margins, product life cycles and sales volume expected) pertaining to such a discussion in a particular situation, and vice-versa.

With regard to the second criticism, the notion of public knowledge being highly coded, and therefore shareable, fails to allow for specific professional knowledge, such as that used by doctors, lawyers and engineers, being encoded in such a way that it is comprehensible only by those professional groups. Assuming encoded knowledge is generally comprehensible would imply that such specialist knowledge is widely understood. Further clarification of the comprehensible situational cue (CSQ) concept is feasible with the addition of the concept of "Knowledge Intensiveness" (Starbuck, 1992; Alvesson, 1993; Starbuck, 1993). Starbuck defines knowledge intensity as how much exceptional "esoteric expertise dominates common place knowledge within a business" (1993). If such esoteric expertise is widely shared among the individuals in the business, then there is said to be a high degree of knowledge intensiveness in the business.

### *Comprehensible Situational Cues and Knowledge Intensiveness*

Although the concept of the knowledge intensive business is confusing (because of the unclear distinctions between knowledge that is esoteric and knowledge that is widely shared and, subsequently, the apparent contradiction that exists within a knowledge intensive business where esoteric knowledge is widely shared), the derived notion of knowledge intensiveness (KI) offers a useful insight when it is applied to the interactions between individuals. For the purposes of this discussion, knowledge about a particular business, its culture, skills and so on, is assumed to belong only to the individuals working within it<sup>2</sup>. This may include generally well-accepted knowledge since the esoteric element is the way that knowledge is applied to, and understood within (Wilkstrom and Norman, 1994), the business in question by those individuals within it. Such knowledge is therefore esoteric, as it applies solely to that business.

In this respect, therefore, those working within the business will experience a large number of situational cues which, due to the high knowledge intensiveness, are inherently comprehensible regardless of their mode of transmission. Those working outside the business, but with whom the business or individuals within the business come into contact, will not share the same knowledge about the business. Parallel to this are those outside the business who have knowledge required by the business which it does not possess (e.g. an accountant). These are therefore examples of relatively less knowledge intensive situations. It follows, then, that these are also situations where there will be relatively fewer CSQs.

It will be remembered that trust was classified as a tacit knowledge which compensates for any explicit managerial knowledge that is lacking, in order to reduce the complexity of, for example, decision making. One might therefore expect trust to be most prevalent in situations where there is low KI / few CSQs, and also that trust is not necessary where there is high KI / many CSQs. This is not the

case, however, since such presumptions ignore the fact that trust is related to an action or behaviour which is both separate from, yet related to CSQs. For example, the trust involved in the situation of "trusting somebody to do something" replaces the explicit knowledge, which is lacking, that the "something" will be done for certain. An individual trusts another either because he does not know much about a subject (low KI, few CSQs), or because he knows that the other person knows a similar amount about a situation as he, the truster who is knowledgeable, does (high KI, many CSQs). In these two very different scenarios one would expect trust to be present, but one might expect the type of trust, and the nature of the relationship, to be different because of the different KI / CSQs.

### *Familiarity and Trust*

In order to explain these differences, it is necessary to return to the question of familiarity. As Lewicki and Bunker argue, one's familiarity with the individual would also be expected to have an impact on situational trust. This is the case for any given situation, since situational trust is inherently situation specific. It is therefore dependent not only on interactions of a similar nature but also dependent on interactions with the same individual in a similar situation. The level of familiarity with the individual (rather than with the situation) would therefore be expected to have an effect on the type of trust pertaining to a specific situation. This would concur with the above conjecture that trust is present not only in situations of low KI / few CSQs, but also in those of high KI / many CSQs. Where situations of high familiarity occur (for example with a long-standing business partner), one may expect different types of situational trust than where there is low familiarity. It is further proposed that situations of low familiarity and few CSQs would give rise to a much weaker type of situational trust between the two parties, perhaps based solely on dependence of one party on the other for the fulfillment of, for example, contractual obligations. Situations of high familiarity and many CSQs, on

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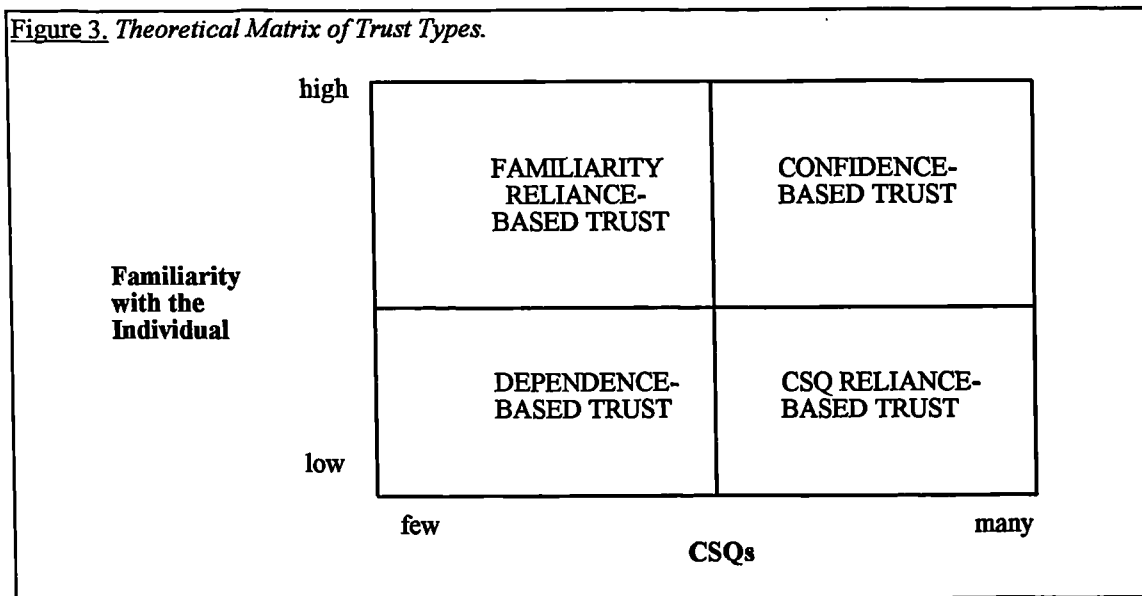
<sup>2</sup> In saying this, it is appreciated that in certain circumstances 'individuals working within the firm' may include individuals brought in from other organizations (see also *Trust Development and the Start-up Process*, below).

the other hand, would give rise to a much stronger type of situational trust, based perhaps on confidence<sup>3</sup> in the other's ability, knowledge, etc.

### A THEORETICAL SITUATIONAL TRUST TYPOLOGY

#### *Additions of Lewicki and Bunker's Typology*

A measure of familiarity with the individual allied to a measure of CSQ that includes the notion of knowledge intensiveness would, therefore, provide for a much more accurate distinction between the possible types of trust that may be found to operate in professional relationships. This may be achieved by adding the 'familiarity with the individual' dimension of Lewicki and Bunker's typology to that of Clark, as shown in Figure 3.



<sup>3</sup>The development of trust as confidence, as with all types of trust, is the result, as was mentioned above, of a cognitive process of "comparing, finding again and designating" (Stack, 1978:82) situational cues received. Thus the word "confidence", as used here, is different from the use of the word by Luhmann, who uses it to draw a distinction between behaviour which results from consideration of situational cues and a weighing up of the consequences of a decision to trust or not to trust, and that behaviour which has no cognitive determinant: "confidence is indicated by a lack of consideration for the risks involved...[whereas] trust is indicated by a consideration of the risks involved..." (1990:97-103).

### *Comparison with Clark's Typology*

The most obvious difference between Clark's typology and that proposed here is the distinction now made between familiarity with the individual and familiarity with situational cues. Although Clark recognises familiarity with the individual as a part of the situational cue mix, the fact that familiarity with the situation is intrinsically associated with the level of situational cues, as was discussed above, makes it difficult to concentrate more closely on the impact of the individuals on the particular situation considered. This results in distinctions between Reliance and Dependency as construed by Clark "somewhat tenuous" (Clark, 1993:47). By isolating the individual, however, the typology proposed here allows for a distinction to be drawn between **reliance on one's knowledge of the individual** (Familiarity Reliance-Based Trust) and **reliance on knowledge (and therefore comprehension) of other situational cues** (CSQ Reliance-Based Trust). It is argued that this distinction allows for a more accurate identification of the types of situational trust that may be seen to operate.

As with the Clark typology, the typology proposed here accepts that there may be varying degrees of each type of trust. This is to allow for different strengths of interpersonal relationship, as perceived by the individuals concerned. Since trust is seen to be something undertaken by individuals (see Chapter I), trust is entirely subjective, and the typology must therefore rely on the individual's own assessment of familiarity with the individual and of levels of CSQs. Thus, an identical situation, as perceived by an individual who is not a member of the business, may be interpreted and explained differently by each of the two interacting individuals so that, although each may be trusting the other based on familiarity with the other, one may feel more familiar with the other than the other does of him. Furthermore, because of their different experiences, one may recognise a higher level of situational cues than the other. It may be seen, therefore, that (as with both Clark's typology and that of Lewicki and Bunker) the typology applies to each of the individuals within the relationship separately, and that it is the interaction of the two trust levels that will influence (for example) co-operation between them (Dibben, Marsh and Scott, 1996; see also *Co-operation, Trust Repair and Trust Stability*, below)

With regard to the deletion of Faith and its replacement with Dependence-Based Trust, this is explained by the change of dimension and the subsequent isolation of the impact of familiarity with the individual, combined with the added notion of KI to the determinant of CSQ. As was explained above, a situation of low familiarity with the individual and few CSQ is indicative of a relationship based on Dependence on the other individual, since the lack of knowledge intensiveness requires an exchange of 'values' (cf. Calculus-Based Trust; see below for a discussion). Faith, on the other hand, is taken to imply not that the individuals have a low familiarity with each other and of the situation, but that they have *no* familiarity with each other, or of the situation; this situation being entirely new and in which it is the first time which they have ever met. It is suggested that it would be very rare for trust to be required of another person in business whom one has never met before in a situation one has never encountered, and that where this was the case, the circumstances would therefore be quite special (see *Trust Development and the Start-Up Process*, below).

#### *Comparison with Lewicki and Bunker's Typology*

As has already been mentioned, Lewicki and Bunker's typology is aimed primarily at describing the characteristics of trust during the development of a business relationship (1996:118), rather than at describing the characteristics of trust in *different situations* during the business relationship. Thus, the underlying premise of the two typologies is quite different, for where Lewicki and Bunker assume periods of continuity of trust across situations the typology described in Figure 3 above (and that of Clark) assumes that the type of trust will alter according to the situation encountered. Whereas Lewicki and Bunker emphasise the primacy of the relationship between the individuals (downplaying the impact of the individual situations), and Clark emphasises the primacy of the individual situation (downplaying the impact of the relationship between the individuals), the typology proposed here recognises the primacy of the individual situation *within which* the relationship between the individuals plays an *equal* part in influencing the type of situational trust which is at work. Direct comparison of the three typologies is therefore not strictly viable, since their different underlying assumptions mean that one is not comparing like with like. Theoretical comparison of Lewicki and Bunker's typology with that



proposed here, therefore, is only valid to indicate possible strengths and weaknesses of the latter, proposed typology, for the purposes of its modification.

The reason for Lewicki and Bunker's insistence on the primacy of the relationship between the individuals lies partly in the fact that their typology was developed from the work of Boon and Holmes (1991) which "focussed on trust development only in a close, personal relationship (e.g., romantic) context" (Lewicki and Bunker, 1996:117). While Lewicki and Bunker recognise that working relationships "do not entail a romantic component" (ibid), their typology appears to be based on the premise that the range of situations encountered is limited (as one might find in a romantic relationship). It is argued that the business (and especially the small business) context produces a far greater variety of situations, encompassing a demand for a far greater variety of information, knowledge and competencies, than the origin of Lewicki and Bunker's typology will allow. For example, consider the situation of two business partners, A and B, of whom B is a qualified accountant. There is a relationship of many years' standing, and they share the same beliefs and ideas about their business. Following Lewicki and Bunker's typology, their relationship would be best described as being indicative of Identification-Based Trust. However, in the particular situation of doing the business' accounts, A's lack of accounting knowledge reduces his relationship to a position of familiarity reliance on B, irrespective of the fact that they share the same ideology (see also *Trust Type and the Object of Trust*, below).

It is argued, therefore, that Lewicki and Bunker's typology is perhaps best described as depicting development and changes in general trust, rather than situational trust. The typology proposed here, on the other hand, attempts to describe trust as "a product of ongoing interaction and discussion" between individual parties within a situational context (Powell, 1996:63) - a context which, as Sheppard and Tuchinsky note (1996:161) demands greater attention.

### *The Temporal Element*

Despite its strengths as a predictor of trust type for particular situations, however, the typology proposed above does not accurately represent *changes in trust*, unlike that of Lewicki and Bunker. This is because, like that of Clark (see above), the typology is static; it does not represent the principle phenomenon of trust as an evolving, dynamic concept. Yet, with the addition of time, the typology of trusts proposed here will allow one to predict changes in trust in a similar way to Lewicki and Bunker, since the typology encompasses their dimension of familiarity with the individual. When time is added to the matrix, therefore, the effect of accumulations of knowledge about the individual, as measured in Lewicki and Bunker's typology, can also be predicted: as familiarity with the individual increases, so one would expect the trust relationship to alter from one of Dependence-Based Trust, founded on exchange of 'values' (cf. Calculus-Based Trust), to one of Familiarity Reliance-Based Trust, based on knowledge of the individual. In this respect, therefore, it is argued that Familiarity Reliance-Based Trust may be equated (though is not identical) to Lewicki and Bunker's Knowledge-Based Trust.

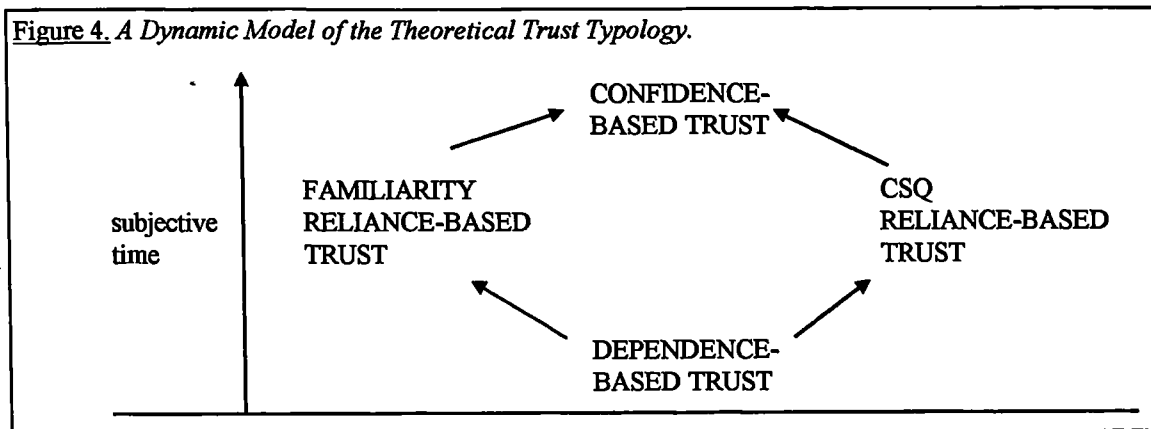
Furthermore, the addition of time also allows one to predict changes in trust relationships based on knowledge of situational cues (CSQ Reliance-Based Trust), since such knowledge intensive relationships would be expected to develop such that the individuals involved increased their familiarity with each other, perhaps to such an extent that each identified with the other. Confidence-Based Trust, therefore, can only come about with increases not only of knowledge of the individual, but also with increases in CSQs which, by implication, involves exchanges of knowledge between the parties such that the relationship is based on knowledge intensiveness. Thus, it is argued that Confidence-Based Trust may be equated (though, again, is not identical) to Lewicki and Bunker's Identification-Based Trust, when the typology is applied to a range of situations.

### *The Iterative Development of Situational Trust*

The development of general trust will, as mentioned, depend on cumulative changes over time of situational trust in a number of situations (see above, and Chapter I). Paralleled to this is the presumption that situational trust will develop iteratively "so that the achievement of trust at one level [/stage] enables the development of trust at the next level" (Lewicki and Bunker, 1996:118 and above). This assumption is made with four provisos: First, that not all relationships necessarily develop through to either Reliance-Based Trust or Confidence-Based Trust; some may remain as Dependence-Based since their purpose either does not require or (because of contractual rules and regulations) will not allow anything more than 'arm's length' transactions, and some may remain as Reliance-Based because the situation will not allow, and/or the individuals do not desire a closer relationship (ibid:125-6): Second, that individuals may reach different stages at different times, since each individual trusts differently (see Comparison with Clark's Typology, above): Third, consequently that the measurement of time is also subjective of the trusting party, since one individual's perception of "a long time" may involve a different length of time to that of another's: Fourth, that where Lewicki and Bunker assume that professional relationship development comes before, or is separate to, any other (e.g. romantic) relationship development (as would normally be the case in business organizations), this is not necessarily the case when one considers relationships in small businesses. In the small business, which is often formed with existing family/partners, friends and business-related associates, the business relationship would be established after, rather than before, other types of relationship.

If it is to accurately represent trust in the small business, therefore, the typology must not assume that all business relationships start with Dependence-Based Trust (cf. Lewicki and Bunker), but rather allow for business relationships to start at Familiarity Reliance-Based Trust and CSQ Reliance-Based Trust. This is because the achievement of the Dependence-Based Trust stage may have occurred before the business relationship began. This is therefore an example of the problems of modeling different aspects of relationships in small businesses that would not normally be encountered in studies

of larger business organizations. The addition of a time dimension to the matrix described in Figure 3 above, to describe the theoretical development of situational trust relationships over time in the small business, is given as Figure 4 below.



## THE IMPACT OF BEHAVIOUR ON TRUST, AND OF TRUST ON BEHAVIOUR

### *The Decline of Trust*

A major area of research in entrepreneurship has been concerned with identifying the problems encountered by small businesses when attempting to expand, which have been summarised as being caused by crises centred around sales and marketing, obtaining external financing (see also Chapter VII), internal financial management, general management and human resources management (Terpstra, 1993). Such crisis situations "are magnifying loci" for the dissolution of trust, where "failure to provide expected help or resources may be viewed not simply as non-performance but instead as acts of complete betrayal" (Webb, 1996:293; see also Mishra, 1996:276). Whether the violation of trust causes the crisis or, as Webb suggests, is a result of the crisis situation, a typology of trust that is applicable to entrepreneurship must therefore be able to account for the decline of trust between individuals.

Violations of trust are said to occur when the expectations of the trusting individual are not met by the trusted individual (Bies and Tripp, 1996:248), upsetting the trusting individual and causing him

to “reassess how he feels about the other... in an effort to both incorporate the new information and redefine the relationship, with the result that he will either end the relationship, renegotiate the relationship on a lower/weaker trust stage, or restore it to its previous one depending on how badly the trust has been violated” (Lewicki and Bunker, 1996:125-126). It may be seen, therefore, that the process which leads to the decline of trust is identical to that which leads to increases in trust, with the exception that the “new information” relates not to one’s expectations being met, but rather to one’s expectations not being met. It follows, therefore, that “trust decline is a general process that reflects the stage of trust development” (ibid:125), with different types of violation affecting different types of trust, depending on their base (Bies and Tripp, 1996:248-252 and Lewicki and Bunker, 1996:125-128).

Although each trust type is capable of being destroyed and the relationship ended with one single violation, this is most likely with ‘weak’ types of trust based on dependence, which will be adversely affected if the agreed rules of (e.g.) exchange that structure them are broken (Bies and Tripp, 1996:248). Types of trust based on knowledge, on the other hand, will be violated when the trusted party behaves in a way which the trusting party had not predicted (Lewicki and Bunker, 1996:127). When these violations become so common as to be predictable in themselves, trust becomes distrust (Luhmann, 1979:73-74). Types of trust based on shared values, meanwhile are only violated when one (or both) parties in the relationship feel the behaviour of the other contradicts those shared values, and thus experiences a “moral violation” (Lewicki and Bunker, 1996:128) which challenges their own identity in relation to the other (Bies and Tripp, 1996:251-252).

Thus, it may be seen that the violation must match the trust base if it is to affect the trust between the individuals and, therefore, that “the more developed the relationship the more the parties have the capacity to handle violations”, especially those which would affect the lower trust stages (Lewicki and Bunker, 1996:128). It is proposed, therefore, that trust is eroded over time by a number of violations, and that it declines in a step-wise fashion down through the trust stages as the individuals reassess the relationship until, with the breakdown of ‘higher’ forms of trust and/or with the creation of

distrust (see above), the relationship reverts to a trust based on dependence, where “‘shell-like’ formal, emotionally distant and calculative exchanges occur” (ibid:129).

#### *Co-operation, Trust Restoration and Trust Stability*

These breakdowns of trust, resulting from the failure to meet the other party's expectations, often centre around a failure to co-operate (Powell, 1990:326). As Deutsch notes, co-operation requires trust whenever the individual... places his fate in the hands of others” (1962:302), and when they do not then co-operate, the trust placed in them is violated. Mutual trust, therefore “plays a central role in a successful [business] co-operation” (Volery, 1995) and it follows, conversely, that “co-operation breeds trust” (Putnam, 1992:171, in Meyerson et al, 1996). Trust repair, therefore, requires both parties to be willing to commit themselves to the repair process by re-engaging in co-operation. This, in turn, involves one party willing to accept liability for the violation, and the other party willing to “forgive and forget” in order that the relationship can be renegotiated (Lewicki and Bunker, 1996:136; Bies and Trip, 1996:258).

In order to re-initiate co-operation, however, risks are undertaken (Boon and Holmes, 1991; Shapiro et al, 1992) which, again, require trust between the parties. Yet, rather than the trust type influencing co-operation in a situation, it is suggested that it is the *level* of trust that influences co-operation. Situational trust will be high, medium or low, regardless of its type (Marsh, 1995). Since trust is felt by each individual, the type of trust felt (and therefore the strength of the trust, which affects its tendency to be diminished - see above) may be different, but the level of each trust may be the same for a given situation. Equally high levels of CSQ Reliance-Based Trust and Dependence-Based Trust will result in the same co-operation for any given situation as would occur if the two types of trust were the same. The difference lies in the impact of trust violations, since the weaker the trust type (Dependence-Based Trust is a weaker type of trust than Confidence-Based Trust) the faster the trust level will decline.

One would therefore expect co-operation between individuals whose trust is of a different type to be affected more rapidly than co-operation between individuals whose trust is of the same type<sup>4</sup>.

### *Trust Type and the Object of Trust*

Differences in the strength of trust type, however, also affect the object of trust, since (as was discussed above) each trust type is based on a different premise. It is suggested that the stronger the trust type, the more important the object of trust. For example, whereas one might entrust operational decisions to one's employees, relying on one's knowledge of their abilities, one would not entrust them with a strategic decision, such as a decision to invest in a new market, unless one was also confident that they identified with and shared one's own desires for the business (Sheppard and Tuchinsky, 1996:145). Furthermore, where a procedure has been established whereby certain decisions are made by employee A, for example, based on one's reliance on his abilities born of a history of accomplishment, any switching of the decision to another employee would be expected to adversely affect the trust relationship between employee A and oneself. If the decision is entrusted to someone who is usually entrusted with more important decisions, as he sees it, then that trust relationship also would be expected to be adversely affected since, in both cases, people's estimates of procedural justice (their judgement of the fairness of decision processes), based on previous interactions, will have been upset (Brockner and Seigel, 1996:401). It follows, conversely, that a positive change in the type of situational trust held by the trusting individual of the trusted individual will lead to them being entrusted with more important (as perceived by the trusting party) decisions, tasks etc., in that situation. In summary, therefore, the type of trust has an effect not only on the decision to entrust a particular task to an individual within the business, but it will also affect not only the trust of the entrusted individual, but also that of others affected by that decision.

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<sup>4</sup> This is, in fact, more complicated because each of the individuals in the relationship also develops a co-operation threshold which alters as a result of similar influences to the influences affecting situational trust levels (Marsh, 1995). The combination of each individual's trust and co-operation threshold determines his willingness to co-operate. Where both are willing to co-operate, co-operation ensues (see also Chapter V and Dibben, Marsh and Scott, 1996).

## TRUST DEVELOPMENT AND THE START-UP PROCESS

### *The Start-up as a Unique Situation*

The preceding sections have proposed a theoretical situational trust typology applicable to existing business relationships where, by implication, one of the four types of trust suggested exists for each of the individuals in the relationship. A theoretical situational trust typology applicable to the small business setting, however, must also be able to accommodate the impact of the entrepreneurial process. Whilst entrepreneurship is essentially about the extraction of value from environments (Anderson, 1995:297 and Nefziger, 1986:31), the entrepreneurial function may typically be seen as the carrying out of "new combinations". These "are, as a rule, embodied in new businesses" (Schumpeter, 1934:32), whose pre-start and start-up phases can provide a peculiar set of situational characteristics. This is because they involve (especially in the case of LEC & TEC sponsored start-ups) the rapid formation of a group of people, selected (either by the LEC/TEC or the entrepreneur from its/his personal network) for their ability to contribute specialist expertise, to "work up" a business idea (personal communication; Strathkelvin Enterprise Trust, 1993). As such, it may involve individuals who will not be part of the small business itself, since they may come from existing organizations (such as banks and other funding bodies, law businesses, management and marketing consultants etc.).

This group of people, who may not have worked together before, are often required to conduct independent self-initiated work which is to be brought together by a set date. The pre-start and start-up situation is therefore one laden with uncertainty, risk (of failure - hence there is also the possibility of the participants shortly not working together) and high expectations (of success). This is often coupled with an atmosphere of 'crisis' (resulting from the imposition of tight deadlines and external demands from funding bodies) which, as well as increasing the chances for the destruction of trust noted above, can also "operate as a uniquely heated crucible for the creation of trust" (Webb, 1996:293). As well as being able to map both the development of trust and decline of trust, therefore, a typology of trust



development applicable to entrepreneurship must also be able to account for the development of trust in such new venture situations, where the organizational boundaries may not initially be very well defined<sup>5</sup>.

### *Temporary Systems and Faith-Based Trust*

Many of the characteristics noted as existing in such situations are also noted by Meyerson et al (1996) in a study of film crews, who are made up of “participants with diverse skills... assembled by a contractor [the film director], to enact expertise they already possess.” These participants “have a limited history of working together..., have limited prospects of working together again in the future..., [and] are part of limited labour pools and overlapping networks.” Furthermore, the tasks involved are “often complex and involve independent work..., have a deadline..., are non-routine and not well understood..., [and] are consequential..., [requiring] continuous interrelating [with the others in the group] to produce an outcome” (1996:169). They are therefore described as an example of a “temporary system” (Goodman and Goodman, 1974:495, in Meyerson et al, 1996). Such temporary systems are formed “in the context of large risk where the damage incurred could outrun the advantages gained” (Meyerson et al, 1996:178), do not have an “existing structure to handle what has become a significant but non-routine issue” (ibid:179), and in which, in order to function, “trust must be conferred *ex ante* of experience telling an individual that another is trustworthy” (ibid:170).

It is argued, therefore, that the group of individuals brought together to form a small business often complies with many of the requirements of such temporary systems, whose characteristics are such that the trust that develops between the individuals in them “is not simply conventional trust scaled

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<sup>5</sup> A discussion of boundary formation is beyond the scope of this thesis. It should be noted, however, that the impact of both organizational boundaries on trust development, and of trust between boundary role persons on inter-organizational collaboration is receiving increasing attention (Curall and Judge, 1995) although, with the exceptions of Low and Srivatsan (1995) and Volery (1995), apparently not in the small business context. The lack of established boundaries in the pre-start and start-up stages, as well as the important influence of an entrepreneur’s external network on small business performance in general (Larson, 1992; Larson and Starr, 1992), would therefore make it possible to provide a useful insight into the development and role of trust between boundary role persons by studying trust in small business. This would probably assume that the boundary role persons involved would be the entrepreneur/owner manager and an ‘outsider’. An important development of this would be a study of the role of situational trust development on the ‘absorption of such a boundary role person into the small business (see also *Implications for Research*, below).

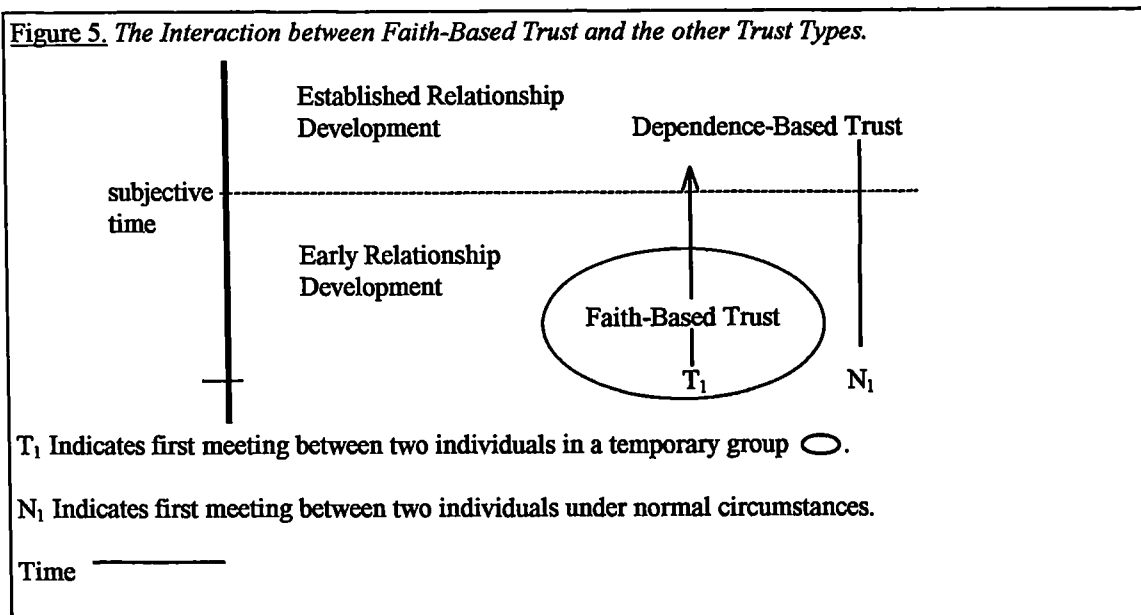
down to brief encounters of strangers, but a unique form of collective [i.e. held by each of the individuals in the system] perception and relating that is capable of managing the issues of vulnerability, uncertainty, risk and expectations that become relevant immediately temporary systems are formed” (ibid:167). This situation is therefore one which the individuals in the temporary group may have not encountered before and in which the individuals often do not know each other. It is also, however, a situation from which the individuals may emerge with their reputations and self images damaged (ibid:171) and in which each of the individuals is consequently “comparably vulnerable... with each controlling the other’s fate and [thereby] imposing the same threat” (ibid:173).

This ‘temporary group situation’ is therefore one requiring a “swift trust” (ibid:166) based on **faith** in one’s own ability and the expected ability of the other members. Such Faith-Based Trust (cf. Clark’s typology above) would be expected to only be strong, or “resilient enough to survive the life of [the] temporary group” (ibid:180), since “there is, quite literally, neither enough time or opportunity in a temporary group for the sort of experience necessary for thicker [i.e. stronger] forms of trust to emerge” (ibid:181). In those cases where the start-up process succeeds in producing a new venture, then the increasing levels of individual familiarity and/or CSQs that result as more permanent relationships are formed will naturally lead to the trust type changing over time to the other four trust types, as explained above. The interaction between Faith-Based Trust and the other trust types is described in Figure 5 below.

#### *The Role of the Co-ordinator in Generating Faith-Based Trust*

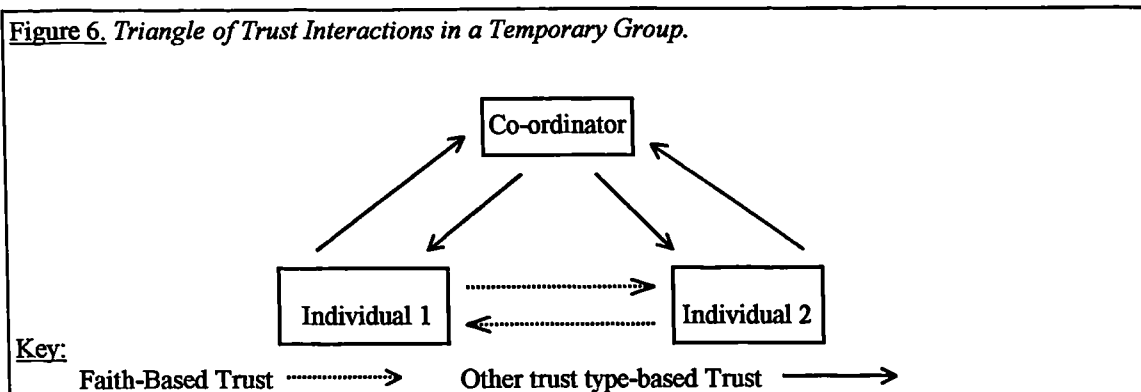
It has been mentioned above that temporary groups, as discussed here, come about as a result of the co-ordinator making use of his extended network to bring a number of individuals together. Such heavy reliance on networks makes trust requirements high (Creed and Miles, 1996:26), since network members are obliged to “forego the right to pursue self interest at the expense of others” (Powell, 1990:303). The Faith-Based Trust that exists in temporary group situations, therefore, is made possible by the presence of the “contractor [or co-ordinator, (e.g.) the film director, the entrepreneur, the go-between], whose reputation is also at stake” because he is responsible for assembling the group in the

first place (ibid:171). As such, it is expected that, with the possible exception of the presence of 'friends of friends', the co-ordinator will know all of the other individuals within the group and will consequently have already formed a trusting relationship with each of them, prior to the present temporary group situation. It is suggested, therefore, that the decision to be a part of the temporary group, and hence the conferring of Faith-Based Trust, *ex ante*, by one individual on another in the temporary group, will come about as a result of an assessment of the trustworthiness of the *co-ordinator*, in terms of his integrity, benevolence and ability to select appropriately able group members, combined with consideration of the risk involved and the potential outcomes (Mayer et al, 1995) from membership of the temporary group<sup>6</sup>. The trusts that exist between the co-ordinator and each of the individuals in the group and between each of the individuals and the co-ordinator will not, on the other hand, be based on faith but will (depending on the nature of the relationships) be one of the other four trust types identified in the typology.



<sup>6</sup> It follows that the same considerations will be made in a decision by an individual to enter into an initial Dependence-Based Trust relationship with another individual, after a period of interaction following a first meeting under normal circumstances. This 'normal' trust establishment is provided for in Figure 5 above by the inclusion of N<sup>1</sup> in addition to T<sup>1</sup>. It also follows that this suggestion is in line with the Burt and Knez findings regarding third party influence on interpersonal trust development (1996), discussed in Chapter I.

Thus, where the co-ordinator, or the other individual, has little previous experience of such a temporary group situation (and where because of their specialist knowledges there is low knowledge intensiveness) either Dependence-Based Trust or Familiarity Reliance-Based Trust will exist between them. Where previous experience of such a temporary group situation does exist, for example in the case of a portfolio entrepreneur setting up another company, the trust of the entrepreneur in the other individual may either be CSQ Reliance-Based Trust or Confidence-Based Trust. The relationship between the co-ordinator and each of the individuals is therefore of particular importance. This is because (a) he is (probably) the only non situation-specific link between the individuals in the group, and (b) the trust that exists between himself and each of the other individuals is of a different nature, and therefore stronger, than the comparatively weak Faith-Based Trust that exists among the other individuals. The interaction between the co-ordinator and the other individuals, as described by the different types of trust involved, is shown in Figure 6 below<sup>7</sup>.



### REQUIREMENTS OF THEORETICAL SITUATIONAL TRUST TYPES

To summarise, it was proposed that two factors (ability to comprehend situational cues and familiarity with the other individual) affect the development of situational trust, and two theoretical trust typologies (Clark, 1993 and Lewicki and Bunker, 1995, 1996) were highlighted as utilising these factors. A comparison of these two typologies revealed a number of deficiencies with respect to their

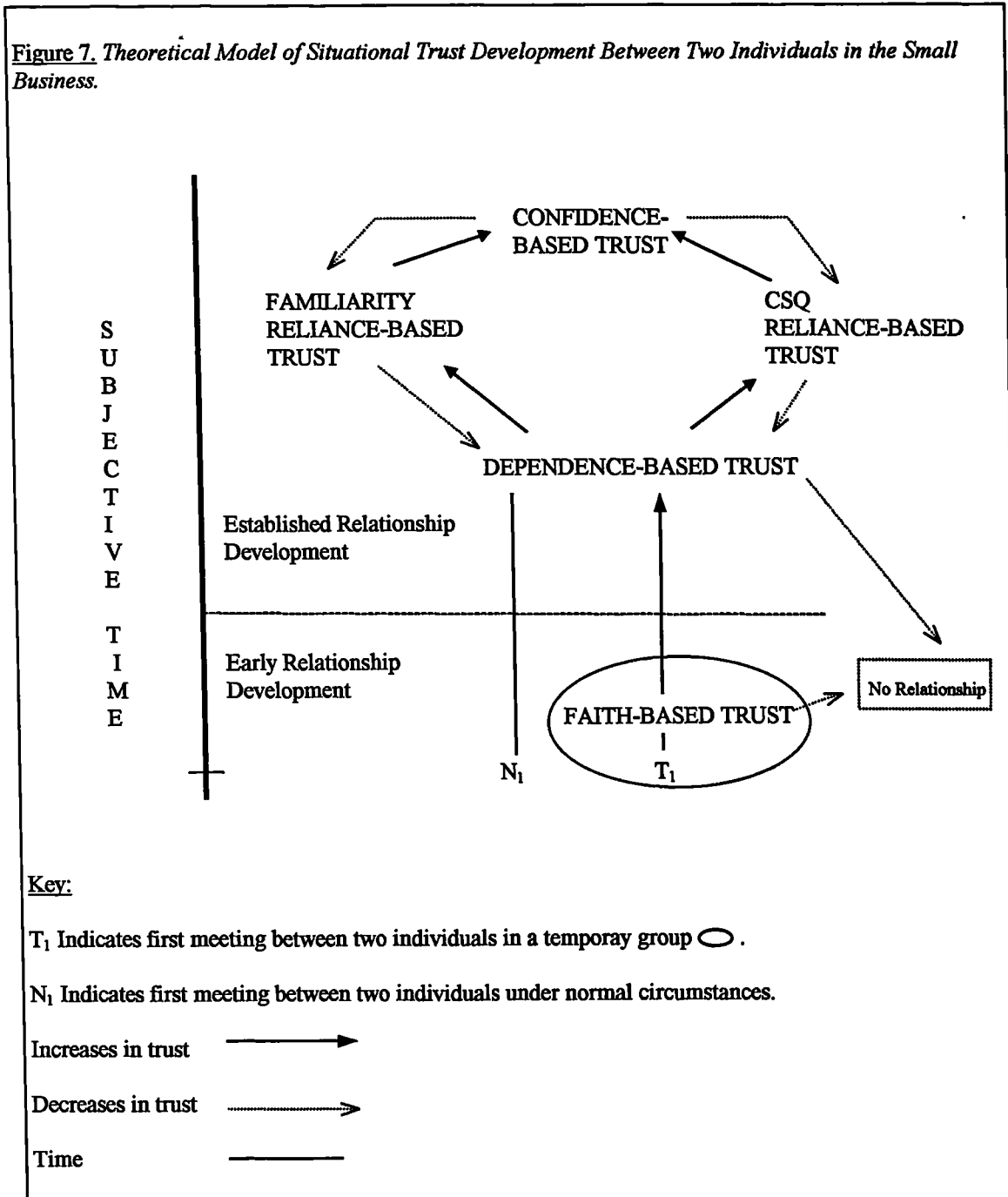
<sup>7</sup> For a more detailed discussion of the impact of perceived trustworthiness of the co-ordinator on a decision to trust an individual and thereby join a temporary group, as it might apply to the investment

application to the small business setting. In particular, these were concerned (in respect of Clark, 1993) with the situational cue dimension, the need to isolate individuals in the relationship from the situational cues, the need for a dynamic representation of the development of trust and its decline, (in respect of Lewicki and Bunker, 1996) the assumption that all business relationships necessarily start with trust that is based on calculative exchange, and (in respect of both Clark and Lewicki and Bunker) a lack of appreciation of the uniqueness of the pre-start and start-up situations as catalysts for rapidly formed situational trust development. In the light of these deficiencies, a theoretical trust typology applicable to the small business setting was then developed. This was achieved by 1) adopting the notion of knowledge intensiveness (Starbuck, 1992, 1993); 2) combining the resulting CSQ dimension derived from Clark with Lewicki and Bunker's 'familiarity with the individual' dimension; 3) adding Faith-Based Trust (derived from the concept of swift trust (Meyerson et al, 1996)); and 4) representing situational trust development in terms of subjective time as perceived by each of the individuals in the relationship. The resulting typology describes the development of situational trust through five theoretical trust types: Faith-Based Trust, Dependence Based Trust, Familiarity Reliance-Based Trust, CSQ Reliance-Based Trust, and Confidence-Based Trust, and is shown as Figure 7 below.

It follows from the preceding discussions that a key advantage of the theoretical typology proposed lies in the fact that, as may be seen in Figure 7, it allows one to predict the development of situational trust between two individuals in a small business over time. Depending on who the individuals are, it will then be possible to predict the interactions and the behaviour of those individuals in those interactions, and so gain a valuable insight into the interpersonal dynamics of the small business. This will consequently also allow one to assess the impact of those interactions on the business' future, especially where those interactions involve strategically important decision making processes. The following section therefore suggests requirements for each of the five situational trust types identified, based on the preceding theoretical discussion, which are also repeated as Appendix 8 for ease of reference. This will then, in conclusion, enable an identification of possible research

questions concerning the accuracy of the proposed theoretical typology, the impact of trust on the behaviour of the individuals within the business, and the consequent impact of that behaviour on trust.

**Figure 7. Theoretical Model of Situational Trust Development Between Two Individuals in the Small Business.**



### *Faith-Based Trust*

Faith-Based Trust is that trust which exists between two individuals in a temporary group. As with each of the situational trust types, therefore, it is most recognizable by "the context in which the negotiation is embedded" (Sheppard and Tuchinski, 1996:161). The temporary group context will consist of:

1. a group of people with diverse skills who have a limited history of working together, so that trust is conferred *ex ante*;
2. a definite aim and a deadline, creating an atmosphere of 'crisis';
3. the need for continuous interrelating between the individuals to produce an outcome;
4. a co-ordinator, who has a trusting relationship with the other members that is not based on Faith-Based Trust.

Faith-Based Trust will develop quickly and be strong enough to last the lifetime of the temporary group. If the relationship continues after the end of the temporary group, it will become Dependence-Based Trust. During the temporary group period, an individual may feel increasingly that there are similarities between himself and the other individual. It is suggested, therefore that 'sub-trusts' may develop that resemble one of the other four trust types in the typology (e.g. Faith-Based Trust that resembles Confidence-Based Trust). The previous experience of the temporary group may, therefore, speed the trust development, so that transitions from Dependence-Based Trust to a Reliance Based Trust, for example, may happen more rapidly than had the relationship developed under more normal circumstances.

### *Dependence-Based Trust*

Dependence-Based Trust is that trust which forms between two individuals after a period of initial interaction, during which time each assesses the other's trustworthiness in terms of his integrity, benevolence and ability, combined with an assessment of both the risks involved in establishing a trusting relationship, and of the potential outcomes. It follows that, once the trusting relationship has been established, it relies on a frequent exchange of values. Dependence-Based Trust may be said to exist when at least three of the following four criteria are discernible:

1. between individuals who do not know each other well, leading to arm's length transactions, and in situations where there is low knowledge intensiveness;
2. where one is more aware of the differences between the individuals, than of their similarities;
3. in situations of low risk<sup>8</sup>, as recourse to punishment is easily available since the relationship is heavily bounded and regulated, for example, by contracts (Lewicki and Bunker, 1996:124-5);
4. where, consequently, there is more 'value' to be lost by ending the relationship than by remaining in it.

When there is no value to be gained by continuing the relationship, then either the relationship will discontinue (a common characteristic of Dependence-Based Trust relationships) or it will continue, having altered to one of Reliance-Based Trust, because of the knowledge gained of the individual or of the situation. Dependence-Based Trust is most common between individuals who are simply buying from and selling to each other.

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<sup>8</sup> as perceived by an observing party. For the individual involved, such situations may be perceived as high risk (because of the lack of knowledge of either the situation or the individual), which he is able to diminish by engaging in, for example, contractual obligations. In this case, therefore, the real locus of



### *Familiarity Reliance-Based Trust*

Familiarity Reliance-Based Trust may be said to exist when at least three of the following four criteria are discernible:

1. when an individual feels he knows the other well as a result of previous interactions in different situations, and can therefore predict his behaviour, irrespective of the lack of comprehensible situational cues;
2. in situations which are novel to one or the other, or both, individuals;
3. where one is increasingly aware of the similarities between the individuals, rather than the differences;
4. where the relationship has developed beyond simple arm's length transactions, so that the risk of loss (of the friendship) allows for single trust violations to be discounted.

### *CSQ Reliance-Based Trust*

CSQ Reliance-Based Trust may be said to exist when at least three of the following four criteria are discernible:

1. when an individual feels he knows the situation well as a result of previous interactions with different people in similar situations, and can therefore predict the behaviour of the other party, based on their shared situation-specific knowledge, irrespective of the lack of familiarity with the other party;

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trust may be argued to be in the contract, or the punishment available, should the Dependence-Based Trust in the other party be violated (see also Chapter I).

2. in situations which, therefore, are not novel to either individual, and in which there may be a willingness for the other to deputize for them;

3. where one is increasingly aware of the similarities between the individuals, rather than the differences;

4. where the relationship has developed beyond simple arm's length transactions, so that the risk of loss (of the business relationship) allows for single trust violations to be discounted (cf. Dependence-Based Trust).

In the case of both Reliance-Based Trusts, they illustrate the development of a relationship beyond the Dependence-Based Trust relationship that existed initially. This is not to say that the exchanges of 'value' have stopped, but that the relationship is founded on a "different conceptual paradigm" (Lewicki and Bunker, 1996:125).

#### *Confidence-Based Trust*

Confidence-Based Trust may be said to exist when, after a period of further investment in the relationship, at least three of the following four criteria are discernible:

1. a clear identification with the other individual is apparent;

2. the parties have a history of interaction in a wide number of different situations and there is consequently a high level of knowledge intensiveness and familiarity with the other party;

3. the individuals are willing to engage in high risk<sup>9</sup> situations, and allow the other to deputize for them in non-routine exchanges with other individuals;

4. the individuals are willing to ignore trust violations that would affect the nature of the relationship, were it based on either dependence or reliance trust types.

As with the transition from Dependence-Based Trust to Reliance-Based Trust, the transition from Reliance-Based Trust to Confidence-Based Trust also involves a change in the conceptual paradigm (from one of shared knowledge to one of mutual empathy and self identification) which the individual has of the other individual in the relationship.

*Comparison with the Relationship Model (Dibben, 1994)*

The typology proposed here, as has been shown, isolates the impact of an individual's familiarity with another individual from his knowledge of the particular situation in which he is interacting with that other individual. The combination of these two dimensions will determine the type of situational trust held by one individual in another (who is therefore the subject of the trust). It is proposed that this, in turn, will affect the type of things (decisions, ideas, issues etc.) that that individual will be entrusted with (the objects of trust) in the business. Knowledge of the particular situation will be determined by the level of situational cues comprehended by the trusting individual, and hence on the degree of knowledge intensiveness of the relationship in that particular situation. Familiarity with the individual, on the other hand, will be determined by knowledge of that individual, which will come about over time (the length of which is entirely subjective - see above) as a result of interaction with that individual. These interactions will give him knowledge about that individual's integrity, fairness, competence, loyalty and motivations (Mayer et al, 1995) and, hence, his predictability.

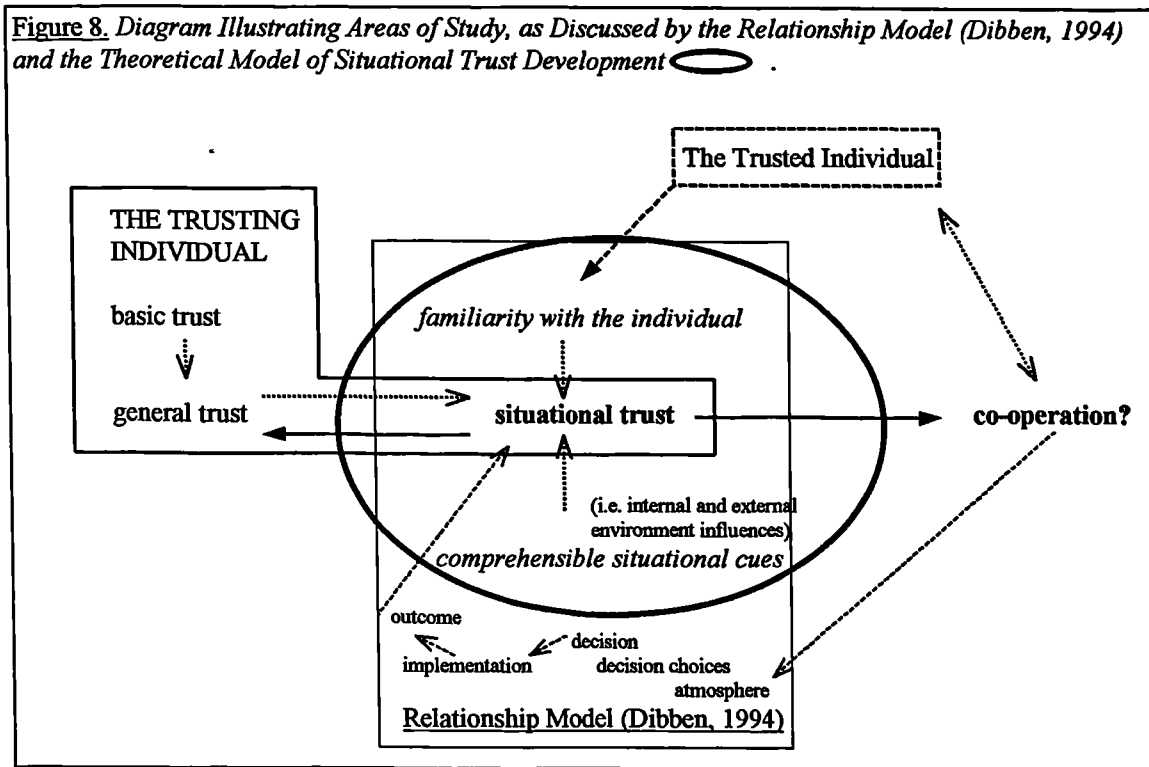
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<sup>9</sup> as perceived by an observing party. In this case (cf. Dependence-Based Trust in 'low risk' relationships, above), the individual's knowledge of the situation and of the other individual will mean that he perceives the risk as being quite small - evidence of the confidence he has in the other person.

Previous work on interpersonal relationships in new businesses (Dibben, 1994) led to the proposal of a Relationship Model Illustrating Influences on Decision Making in the New Firm. It was suggested in Chapter I that many of the factors determining situational trust identified in the trust literature could be grouped under the influences affecting relationship development identified in the Relationship Model. A further re-examination of the influences identified in the relationship model indicates that they may be separated into (a) measures of subjective time, (b) indicators of familiarity with the other individual (and thus of the level of shared identity with the other individual - where identification with the other individual is a sign of Confidence-Based Trust), and (c) indicators of specific situational cues. For example, 'age of relationship', 'perceived continuity of relationship' and 'time gap' are concerned with measures of subjective time, whereas 'motivator', 'goal congruence', 'cultural similarity', 'communication similarity' and 'perceived desired action' are possible indicators of familiarity with the other individual. 'Internal environment requirements', 'external environment requirements', 'stakes', 'power balance', 'perceived competence', 'perceived desired action', 'communications' 'atmosphere' and 'support provided', on the other hand, are indicators of specific situational cues. Lastly, it is suggested that 'implicit rules' are themselves an indicator of the type of situational trust that exists between the two individuals, since situations requiring strict adherence to the implicit rules indicate the presence of a weaker trust type (i.e. one formed on Dependence-Based Trust or a weak Reliance-Based Trust), and vice-versa (see also *The Decline of Trust*, above).

Thus, it may be seen that the Theoretical Model of Situational Trust Development (Figure 7) describes the types of situational trust possible in a relationship between two individuals in a small business setting, whereas the Relationship Model Illustrating Influences on Decision Making in the New Firm described the interactions of situational cues, indicators of familiarity with the other individual, and subjective time, which combine to determine the type of situational trust held by one person of another in a given situation. The type and level of situational trust will determine then the level of co-operation (see *Co-operation, Trust Restoration and Trust Stability*, above) in discussing, choosing and implementing decisions, whose outcomes will affect the situational trust. The areas of study, as discussed

by both the Theoretical Model of Situational Trust Development and the Relationship Model (Dibben, 1994), illustrating the overlap between the two, are shown as Figure 8 below.



## CONCLUSIONS AND IMPLICATIONS FOR RESEARCH

This chapter has proposed a Theoretical Model of Situational Trust Development applicable to entrepreneurship, developed mainly from the work of Clark (1993) and Lewicki and Bunker (1995, 1996), but with a number of other additions. In the light of previous findings in Chapter I regarding the *locus* of trust, this chapter has concentrated on the development of interpersonal situational trust, highlighted a number of different theoretical situational trust types that may be at work in the small business setting, and described how they might develop and decline. Furthermore, it has proposed a set of four observable characteristics for each situational trust type, in order that each type may be observed in empirical study, thereby allowing a deeper understanding to be gained of both the role of trust, and its relationship with behaviour (and especially co-operative behaviour), in the small business setting. Lastly, it has also illustrated how the Relationship Model proposed previously (Dibben, 1994) relates to the

Theoretical Model of Situational Trust Development proposed here. This has further shown how indications of the degree of shared identity (and, hence, the extent of familiarity) with the other individual may be gained by assessing, for example, perceived goal congruence, communication similarity, perceived cultural similarity, and perceived motivator similarity of the two individuals concerned.

### *Implications for Research*

Most importantly, however, the preceding discussions (as well as the theoretical trust typology itself) have attempted to illustrate the dynamic nature of trust development. Any research into trust in the small business setting must therefore, above all, address the impact of changes in trust over time in the small business and, conversely, the impact of changes in the small business on trust. It must consequently be able to get inside the “black box” (Molian and Birley, 1995) - access the dynamic *processes* involved, rather than the more easily measurable outcomes of those processes. The nature of the small business setting, often lacking established borders (see *Trust Development and the Start-up Process*, above), means that research must also not restrict itself entirely to the trust that develops between business members, since key decisions may well be influenced by trusts that develop between business members and ‘outsiders’. In the light of this, and finally, the following ‘burning’ research questions may be asked:

1. Who trusts, and is trusted, within the business?
2. Who trusts and is trusted outside the business?
3. Who is trusted with what types of situational trust?
4. What types of situational trust are most important in a small business setting?
5. What types of situational trust are most common in a small business setting?
6. What types of situational cue are most prominent in what types of situational trust?
7. How does that trust develop, and what behaviour affects that development?
8. How does co-operation affect what types of situational trust?

9. What types of situational trust lead to trust of others in:
- (a) Strategic decision making?
  - (b) Operational decision making?
10. How do what types of situational trust affect co-operation with regard to:
- (a) Strategic decision making?
  - (b) Operational decision making?
- 11 (a). How do crises affect trust development?
- 11 (b). How does trust affect crisis development and resolution?
- 12 (a). How does co-operation affect trust decline?
- 12 (b). How does trust decline affect co-operation
- 13 (a). What effect does trust decline have on small business (a) growth (b) failure?
- 13 (b). What effect do increases in trust have on small business (a) growth (b) failure?
14. What effect do different perceptions of time have on (a) situational trust (b) co-operation?
15. How accurate is the theoretical trust typology at representing the development and decline of trust in the small business setting.

The rest of the thesis is concerned with an attempt to come to a set of indicative 'answers' to these research questions, using a variety of research approaches to demonstrate the applicability of, and refine, the Theoretical Model of Situational Trust Development as an explanatory framework in keeping with the interpretivist position set out in Chapter II. The next chapter therefore reports on an empirical study aimed at mapping trust in the small business setting and thereby providing a macro-level analysis of the applicability of the model developed in this chapter. This is followed, in the tradition of philosophical inquiry (Whitehead, [1929] 1978), by the engagement in *dialogos* ('conversation') between theory in Chapter V and fieldwork in Chapter VI for the purpose of theoretical refinement and, thence, a preliminary understanding of the role and impact of interpersonal trust in the small business.

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*Field Work*

## Chapter IV

### *The First Stage Study*

*Trust thyself: Everything vibrates to that iron string.*

Ralph Waldo Emerson (1911)

Although generally recognised as being a social lubricant in intra-business as well as inter-business relations, it is fair to say that trust largely remains on the periphery of management, organization and entrepreneurship research. The previous chapters, in contrast, have recognised the underlying importance of trust in small business development, highlighted and discussed the effects on interpersonal trust of a number of trust influences considered to be important in the small business setting, proposed a Theoretical Model of Situational Trust Development, developed from the work of Clark (1993), Lewicki and Bunker (1995, 1996) and Meyerson et al (1996), and derived a set of research questions, in order to explore the nature, extent and role of trust in the small business setting.

The purpose of this chapter, therefore, is to begin a discussion regarding the applicability of the model by presenting the first of three empirical studies carried out for the purpose. Firstly, the research instrument used, its rationale and structure are discussed, followed by a description of the Pilot Study and a discussion of the resulting modifications to the research instrument. The Main Study is next described and further modifications to the instrument discussed. This is followed by a description of the data produced from the empirical study and a discussion of its validity, before the data are related to the theoretical model. This is achieved in the first instance by an illustration of how the various situational trust types may be recognised, with examples from the data. The data are then analysed by trust type, according to a number of sub-divisions of the sample, in order to establish the extent and nature of the trusting relations that exist in different businesses in the study. The findings of this analysis are then

discussed, before the chapter concludes with a discussion of findings, implications and areas for further research.

## **RESEARCH AIMS**

Having developed a theoretical model and determined criteria for the identification of different types of situational trust, a set of fifteen research questions were derived from the theoretical study (see Chapter III). These were intended to allow an in-depth, two-stage exploration of the impact of changes in trust over time in the small business and, conversely, the impact of changes in the small business on trust. The broad purpose of the first stage study was to assess the applicability of the framework by establishing the nature and extent of trusting relations in the small business, while at the same time recognising that, because of the complexity of the phenomenon, any findings would only be capable of providing indicative, rather than definitive, evidence. The specific aims of the first stage study, therefore, were to 'put boundaries around ignorance', by attempting to provide answers to the following six research questions:

1. Who trusts, and is trusted, within the business, and by whom?
2. Who trusts and is trusted outside the business?
3. Who is trusted with what types of situational trust?
4. What types of situational trust are most common in a small business setting?
5. What types of situational trust are most important in a small business setting?
6. What types of situational cue/trust object are most prominent with what types of situational trust?

The rest of this chapter is devoted to an explanation of the first stage study research instrument, data, analysis and findings. The chapter concludes by attempting to answer the research questions here proposed and, in the light of these answers, suggests a number of areas for further research.

## RESEARCH INSTRUMENT

### *Rationale*

The research instrument used in the first stage comprised a semi-structured interview schedule, backed up with tape recordings of the interviews. As was discussed in Chapter I, the everyday use of the term 'trust' is in many ways quite distinct from the theoretical definitions adopted in this study. It was therefore decided to completely avoid the use of the word 'trust' in interviews, so as to overcome as far as possible the inducement of rationalised answers. In this respect, therefore, and in accordance with its exploratory nature, the data collection process followed a grounded approach (Strauss and Corbin, 1991), driven as far as possible by the responses of the interviewees, rather than by any theoretical hypotheses. In this way it was felt that the data collected would be brought to the theory free from *apriori* interpretation (insofar as any data are free from theoretical interpretation; see Chapter II), and only be 'affected' by theory at analysis. This was in order to gain as clear a picture as possible of the presence of trust in the small business, since the data would not be driven by structured questions. This is in contrast to the vast majority of trust studies, which continue to present the interviewee with explicit 'trust' questions (e.g. Burchell and Wilkinson, 1996:15).

### *Design*

The desire to both a) avoid 'driven' responses and b) cover as wide a sample as possible in order to 'map out' trust in the small business setting required an instrument that was both reasonably fast to use and yet would provide sufficiently in-depth data. It was therefore decided to develop a semi-structured interview questionnaire which would allow later analytical identification of trust, while giving interviewees the freedom of expressing what they think about without the constraint of their believing

that they will have to rationalise their processes/actions. In spite of these requirements three structuring elements derived from the research questions (see above) were made, regarding the type of information required from the first stage study, which affected its design. These were in order to ensure collection of analysable data and provided the broad structure for the interview: In accordance with the aims of the first stage study, each interview was structured around two key interrogatives; 'who' and 'what', (i.e. trust subject and trust object respectively), with a supplementary 'how' question.

In order to further avoid the problem of post-hoc rationalisation, leading to interviewee interpretation of previous events, it was decided that two further requirements would be set: First, the interview questions should encourage the interviewee to consider the current and/or future situation, rather than past events and, second, the interviewee would not be asked to give reasons for his answers as this was felt to directly encourage post-hoc rationalisation. Given the link established between crisis situations and trust (see Chapter III), and crisis situations and strategic decisions, it was decided that the overt focus for the study would be on 'the future of the business'. It was felt that this would elicit data on issues of strategic importance to the business and, as a result, provide the most likely opportunity for a study of trust keyed to answering the research questions proposed. Five questions were developed, following a series of discussions with supervisors, along with an 'ideal' control question. These were first presented by Harris and Dibben (1995), and are given as Appendix 1.

The need to primarily address future issues, rather than historical ones, as well as the requirement not to drive answers, governed the general development of the questions. In addition, the questions were developed along the principle of 'from general to specific', thus allowing the respondent to focus increasingly on the issues he himself has brought up. This was felt to be an efficient way of generating data having both the necessary width and depth for the requirements of the future analysis. The first question '*When thinking about the future of your business, what are the things you consider?*' was therefore intended to establish the subjects for discussion, as well as provide a general structure and topic (i.e. the business future). The next question '*What about these are you thinking about?*' was designed to encourage a more in-depth exploration of the issues raised in answer to the first question.



The third question *'what sources do you consult or refer to when thinking about these?'* was intended to provide data on who or what the interviewee referred to, and in this respect, it was the most directed of the questions (although answers to this question usually arose naturally in response to the second question - see below). The fourth question *'how do you go about thinking these?'* was designed to elicit information on the sources being consulted, while the fifth question *'how often, and when do you think about these?'* was intended to provide a measure of frequency and, thereby, of relative importance of the issues being discussed. In terms of the previous discussions of trust (see above, and Chapter III), it will be seen that the first two questions would be most likely to provide information on situations for trust, while the third and fourth would be most likely to provide information on the trusted party, although, as has already been explained, the use of the word 'trust' was purposely avoided in the development of the instrument.

#### *Pilot Study and Modifications*

A Pilot Study of the semi-structured questionnaire was carried out on four small businesses in September 1995. Each of these businesses were known to the author and the pilot study therefore consisted of an informal interview with the entrepreneur (with the exception of one which consisted of an hour-long telephone call). The author's previous knowledge of and (academic) interest in each of these businesses allowed the instrument to be tested without the knowledge of the entrepreneurs. The potential effectiveness of the instrument was indicated by the fact that, in three out of the four interviews, it was rarely necessary to ask anything other than the first two questions, as the respondents provided the answers to the other questions as they developed their thoughts during the course of the interview. It also found, however, that while the questions elicited useful, and substantial amounts, of data on future business situations and major concerns of the entrepreneurs (i.e. potential trust objects), as well as those who would be consulted in respect of those situations (i.e. potential trust subjects), it failed to provide information on more routine, day to day business situations. Given the exploratory nature of this part of the research, it was felt that a supplementary set of questions was required in order to provide data that would enable the existence of trust in these more routine situations to be investigated.

At this stage, an opportunity for external funding provision for this part of the research arose, in the form of a small grant from Scottish Enterprise, who were looking to investigate the success or otherwise of business advice and funding provided for small business owners who had previously undergone a course in small business. The design of the supplementary questions was therefore in part determined by the requirements of this funding body. Two main questions and four additional questions were developed, in conjunction with the second supervisor and another colleague who was the official university contact with Scottish Enterprise. These are presented as Appendix 2.

By their open nature, and their focus on individuals/organisations outside of the business, it was hoped that these second set of questions would enable data on external relationships to be collected, and thus provide evidence for or against the existence and nature of trust in those relationships. The focus of the second set of questions was dictated in the first instance by the requirements of Scottish Enterprise, and concerned the sources of business advice and funding. While such focussed questions as *'who have been/are suppliers of finance to your business?'* and *'from whom have you received business advice?'* would not provide sufficient data for the purposes of this first stage study, they would provide data on those individuals/ organisations with whom the small business established a business relationship; they therefore provided data on the 'situation'. With the addition of further supplementary questions, designed to uncover the presence/absence of different types of trust within each relationship, however, it was felt that useful data could be provided. Two questions were developed; *'what are the best aspects of this relationship?'* and *'what are the worst aspects of this relationship?'*. These questions were therefore designed to uncover the nature of the relationships being discussed and, as with the first set of questions, the use of the word 'trust' was specifically avoided.

In addition to the two main question sections, two further sections detailing basic business information and personal information were added (see Appendix 3). This was primarily to satisfy the needs of Scottish Enterprise, but would also serve as a useful means of future categorisation of the data for analysis (see below). It was, however, decided to dispense with the 'ideal world' questions, as these

were found to be unhelpful (by interrupting the flow of the conversation) and difficult to answer; the most frequent response consisting of mild mild annoyance, a comment as to the irrelevance of such a question, and a throw-away answer such as 'I don't know, probably the same as now'.

The Pilot Study also revealed a requirement for a scene-setting preamble to the interview. This arose from respondents being unsure of the interview requirements, due to the necessarily very open and relatively unspecific nature of the questions being asked. The preamble was therefore designed to offer reassurance as to the unfailing validity of the interviewees' responses, and eliminate uncertainties leading to such comments as 'I don't know if that answers your question!'. The preamble revolved around the following paragraph:

"It's important that you appreciate that you won't ever be asked why you do or don't do things. In other words, you won't ever be asked to justify what you do or don't do. For example, if there is something important that you do or think about, and you are not sure why, and even if it doesn't make sense, it's valuable... information."

It was felt that this would both reassure respondents before the commencement of the interview, and also provide another means of addressing the issue of post-hoc rationalisation. This preamble was used for each of the main interviews for the sake of uniformity across the sample. Also as a result of the Pilot Study interviews, an interview sheet was designed, both as an *aide memoire* to ensure each interview was structured in the same way, and (having large amounts of space built around each question) also to enable notes to be taken (see Appendix 5). These notes were intended not only to supplement the tape of each interview, but also to aid the development of the discussion, since they enabled cross-checking of answers during the course of the interview.

## *Main Study*

Following the Pilot Study and instrument alterations, the main study was carried out with 27 small businesses, located mainly in the Glasgow and Edinburgh regions (but with one in St Andrews and one in Inverness) between January and April, 1996. Theoretical saturation, whereby "no new relevant data seemed to emerge regarding a category..., all the paradigm elements were accounted for... [and] the relationships between categories were well established and validated" (Strauss and Corbin, 1991:188) was reached at Interview 24. The businesses ranged in age from one to twenty years (age of entrepreneur twenty six to fifty five), in turnover from below £10,000 to above £1m, from no employees to twenty six employees, and were in twelve different industries, thus providing a very wide sample. This not only aided the analysis (see below), but also enhanced the validity and general relevance of the data, since it was not restricted to one particular industry, or age or size of business. Sample selection was dictated by the requirement of Scottish Enterprise that each of the entrepreneurs had to have completed a small business course, the Graduate Enterprise Programme, run by the University of Stirling until 1991. Although this clearly restricted the sample, it was felt that the nature of the restriction would not prejudice this particular study, due not only to the subject matter but also to the fact that the exploratory nature of the research was such that the aim was to provide indicative, rather than definitive findings. A further advantage therefore existed, in this respect, in having a sample set of 'graduates', since the study would be guaranteed articulate and thoughtful responses - a pre-requisite of the semi-structured interview used in the study.

Initial contact was made with the entrepreneurs by phone. The nature of the study was explained using a pre-determined monograph to ensure all the requisite information was carried over in each case, and a date for interview arranged. Of the total of thirty five individuals telephoned, two had emigrated, two had moved and were untraceable, one refused to be interviewed, and five had moved away to England; for practical reasons, it was decided not to pursue this latter group.

The interviews themselves took between three-quarters of an hour (Interview 5) and two and a half hours (Interview 10), and were taped. The format was experimented with during the first five interviews, and alternated such that on three occasions 'business advice and funding' was covered first, followed by the 'business future' section, and vice-versa for the remaining two interviews. It was felt, however, that the best approach was to cover 'business advice and funding' first, as this appeared to act as a 'warm-up', allowing respondents to relax into the interview and become comfortable with the types of question, and this was therefore the format adopted for the remaining twenty two interviews. The data elicited from the two interviews in which this order was reversed were not felt to have been significantly compromised.

#### *Additional Modifications*

Further modifications were made to the research instrument during the early part of the main study. These modifications consisted of additional questions drawn up as a result of Interview 7, in which the interviewee, JG, following the question 'who do you consult when you are thinking about...' (see above) replied 'well, the most important people in the business are...' Following a review of the data obtained up to this particular interview, it was felt that a specific question '*who are the most important people in the business?*' would provide additional data in the following interviews. This was then supplemented by a further set of questions designed to allow the respondent to explore his relationship with the people he mentioned. These questions were also designed as a further cross-check mechanism for earlier questions, being intentionally almost identical to earlier questions. Thus, for example, '*how would you describe your relationship with each of them [these people]?*' paralleled the question 'what are the best/worst aspects of this relationship?' discussed above.

In addition, the question '*how do you treat the advice/views/ opinions that each gives you?*' was designed to parallel the earlier question 'how do you go about thinking about these?' discussed above. A final additional question was designed to elicit specific data, when required, on the question of agency raised by trust theories. Again the use of the word 'trust' was specifically avoided, and the question

framed as *'what important things do you allow these people to do in/for the business?'* In practice, however, this extra set of questions (presented as Appendix 4) was only required in interviews 19 and 21. One minor modification to the layout of the interview sheet was also made, for more efficient use of available space. This consisted of less room being allocated for the first 'WHAT?' question, and the resulting extra margins being divided between the second 'WHAT?' question and the 'WHO?' question.

## **DATA ANALYSIS**

### *Data Validity*

The use of a semi-structured questionnaire, allowing scope for 'free-thinking' by respondents, rather than simple one line answers to very specific questions, opened up the possibility of respondents making up answers (although this is arguably true of any survey type instrument). This was taken into account in the design of the instrument, with questioning becoming more specific and detailed as the interview proceeded (see above). This allowed for double checking and feeding back responses so that discrepancies were very quickly picked up. In practice, any such discrepancies were always as a result of complex issues not being thoroughly considered by the interviewee:

- 1)            "...I haven't worked this through. [pause] In all those agencies - it's just hit me! All the people I have appointed I have known for a long time. You've worked with a network of contacts, with people, and you know you can trust them..." (16/BD).

In this respect, therefore, it may be seen that open discussion often also helped the individual clarify his own position and, recognised as such, encouraged the interviewee to talk more openly; there being benefits to him in so doing.

The position of the researcher as an industry outsider also helped in ensuring validity, since I was not considered a threat to the business:

- 2) "People will tell you [the researcher], but they won't tell competitors the truth about their business" (09/PH).
- 3) "These are private matters. I would not talk about these things normally, but I feel an obligation to talk to you" (14/SC).

The pre-interview introductory preamble also helped in this regard (see above), since the interviewees knew the background and *prima-face* intentions of the research, and there were also a number of occasions where the interviewee discussed future business ideas and issues which were entirely confidential:

- 4) "I am looking at Japan. We need to develop the contacts over there - you can't do it from here. I know there is a big business there, and I know when we have had them [the Japanese] over here it has always been very good. So that's definitely a future market" (07/JG).
- 5) "I mean there's been tentative approaches made to other people, it could well be that we go into partnership - it's almost a back scratching exercise... So there could be some sort of thing where [they] buy [it], we have it in our [place], we do all their work for them and swap client data and so on. I don't know how many people are thinking of this kind of thing, but that's all totally confidential. You know, because that's really the way forward" (09/PH).

Such evidence lead very quickly to the conclusion that the chances of false responses being provided by respondents were very limited. Finally, with regard to respondent and instrument influences on validity, the focus of the first stage study intentionally rested on the views of the entrepreneurs and their perceptions of the businesses and the relationships within them, since they were considered to be the main strategic actors. Thus, whilst alternative viewpoints may have been provided by other members of the business, these were considered to be relatively unimportant in this case.

### *Data Interpretation*

With regard to data interpretation, the nature of trust as a subjective, situation-specific phenomenon, requires any study of it to accept the notion of multiple perspectives and therefore multiple interpretations. Although the interpretation presented here is the author's, it was intentionally 'protected' from bias by a) strict adherence to the trust criteria under study and b) a research process designed specifically to elicit data that would be relatively unaffected by *apriori* analysis during the field studies themselves; the need to avoid analysis until after all interviews were completed was paramount in order to achieve, as far as is possible, the required 'subjective objectivity'. This, again, was a reason for the adoption of a 'grounded approach' at the data collection stage (see above).

The raw data consisted of completed interview sheets and transcribed interviews, and was interpreted by coding according to the criteria derived from the Theoretical Model of Situational Trust Development (see Chapter III). This involved study of the completed interview sheets and transcribed conversations and cross comparison with the trust criteria, to determine which of the trust criteria applied to the relationship under discussion. The following are transcript extracts as illustrative examples of the different situational trust types.



## Faith-Based Trust

With reference to the criteria discussed above, Faith-Based Trust may be seen in the following transcriptions.

- 6) "They (PSYBT) just gave us the money when we started up - we were put in touch through Graduate Enterprise. And that was that. They never really wanted to know what was going on, and we paid them back" (03/DD).
  
- 7) "MP Associates drew me into one of his projects because of my historical knowledge. He drew me in because he knew that the regional manager of SNH knew that I knew a lot about the area and was quite keen for me to be involved, so P knew there was a strong chance that if I was involved he would get the contract" (27/CD).

In the first example, the two individual parties, DD and PSYBT, are brought together by Graduate Enterprise. In this case, organizational entities are used as descriptors for existing individual interpersonal relationships, such that it is probable that perhaps an additional interpersonal trust relationship is present, but 'hidden' (that is, between two individuals in Graduate Enterprise - of whom one knows DD and the other knows an individual in PSYBT). The definite aim and deadline is the start-up of DD's company, and we may presume a period of interrelating during the negotiation of the loan. The nature of the relationship was such that DD did not see any need to continue beyond the initial interaction and the Faith-Based Trust DD had in PSYBT would therefore be akin to Dependence-Based Trust, since he received the money for which he originally entered the relationship, and which he was depending on PSYBT for.

The second example is also one of Faith-Based Trust akin to Dependence-Based Trust, where MP Associates and CD have entered into a relationship because MP Associates require knowledge held by CD. They are depending on both CD's knowledge and SNH's knowledge (as the co-ordinator known to both parties) of CD, to secure a contract. CD is (presumably, since this is a business relationship) trusting MP Associates to pay him for the work he does. With regard to the issue of organizational entity 'hiding' the individual interpersonal relationship, it is interesting to note that although CD refers to MP Associates as an entity, he also uses the third person singular immediately, referring to the individual inside the company (P) with whom the relationship was with *even before* he names that individual.

#### Dependence-Based Trust

With reference to the criteria discussed above, Dependence-Based Trust may be seen in the following transcriptions.

- 8) "I take solicitor's advice when I'm moving into new areas, like properties, that I don't know anything about. I am not a lawyer, so I have to buy that advice" (03/DD).
  
- 9) "The present solicitor does what I ask him to do, so he is very valuable when I want him, but he is not a person I would walk along and discuss things with. So that, you know, if I need a solicitor's letter I go to him and he does exactly what I say. It's adequate for its purposes. I am on Christian name terms, but you are being friendly for a purpose, and it makes things a lot easier than being abrupt" (02/CB).

In the first example, DD is referring to a trust relationship between himself and his solicitor, in which he is depending on his solicitor's advice for information about which he has little knowledge. The nature of the relationship is such that he sees the need to buy the advice, but the differences between

them (in terms of their business interests) are such that the relationship is one of simple exchange - advice for money. The second example is more detailed, providing further evidence of the arm's length nature of the relationship, since there is no willingness to discuss general business issues, and the use of Christian names is only allowed, from CB's point of view, because it helps get the desired result. The comment "I value him a lot" also clearly illustrates the value in which the solicitor's advice held, and indicates that there may be more value to be lost in ending the relationship. Nevertheless, the relationship is one which is bound by pre-determined verbal (if not written) contracts, with the solicitor providing exactly what is required as it is required by CB, the business owner.

#### Familiarity Reliance-Based Trust

With reference to the criteria discussed above, Familiarity Reliance-Based Trust may be seen in the following transcriptions.

- 10) "I get on well with the bank manager, but I have a track record with him. All banks are the same, they are not friends of the small businessman, but I have an excellent relationship with my bank manager. I'm lucky I've got a good bank manager. He got moved out to another branch, and I've gone to his new branch. If you get a good bank manager, stick with him. It's not the bank it's the bank manager" (03/DD).
  
- 11) "I talk with my father about the business. He was in business for himself and he expected me to go into his business. So when I didn't he was a bit disappointed, but was pleased I decided to take the plunge and go into business for myself, and he always gave me encouragement. But he was dealing with people who were older with different working practices,

and we have different views on that kind of thing..." (09/PH).

The first example is a description of the relationship between the entrepreneur DD and his bank manager which has a "track record" and which has allowed DD to assess the other's reliability and competence, in spite of the fact that he has no knowledge of the banking business. He is thus relying on the bank manager's abilities to do his job, but feels there are more similarities than differences between them in terms of the way they do business - a feeling he does not have for the rest of the banking profession. The relationship has progressed beyond arm's length transactions, and is sufficiently valued for DD to go to some lengths to retain the relationship. In contrast to the Dependence-Based Trust relationships discussed above, where the loss of value caused by an ending of the relationship is such that the relationship is 'protected' by contracts that act as a deterrent, the relationship in this example is 'protected' by the positive actions of the parties (i.e. a willingness to go to the trouble of changing branches on the part of DD, and a willingness on the part of the bank manager to continue supporting DD even though he has moved [from other transcript data] to a different part of the country). This example also provides an illustration of how a relationship that was (from other transcript data) Dependence-Based Trust may progress with time to another form of trusting relationship. The second example describes the relationship the entrepreneur PH has with his father and illustrates how, in spite of the fact that his father knows little about the business, PH still talks to his father about the business because of the general similarities between them and the strength of the relationship that has been built up over the years. This is born in part from a shared empathy for self employment and its problems, and is the case even though they do not share the same business values.

#### CSQ Reliance-Based Trust

With reference to the criteria discussed above, CSQ Reliance-Based Trust may be seen in the following transcriptions.

- 12) "I am recruiting more trained-up pharmacy staff so that

I will be less involved day to day... As far as the staff are concerned I would say that I haven't developed that to make that so core as it should be. My relationships with my wife and my friends, such as they are, are more lasting at the moment, they are the ones that at present I am more conscious of [rather than work relationships]. I tend to keep the social life and business quite separate" (22/IJ).

- 13) "Anybody that we would want to take on [on] a full time basis would have to be someone, possibly, who we have built up a relationship, possibly someone who is working for us just now who is in her final year as a student and who does occasional filling in for us. Maybe does an afternoon here or there, or she works the previews, so we know - we have built up a relationship with her so we know that she is probably somebody who we could take on if she was available for work in six months or a year or so. But I don't think we could put an advert in the paper and just ask for someone, because it is kind of run - I suppose the cliché is it is like a family business. You know it is a sort of a fairly informal thing. It is a tricky one... I know all the aspects of the business myself" (10/JH).

The first example, describing a strategic decision on the part of the entrepreneur IJ to recruit more staff is a clear example of a requirement for CSQ Reliance-Based Trust in the work situation. The people employed are not well known to JH, but an arm's length transaction relationship is not sufficient because of the work situation where the pharmacists will be involved in prescribing drugs. There is therefore a need for JH to be able to rely on those he employs to do the job he does just as well. This is

possible because, being 'trained-up' they will share the same knowledge of the job as he does. This is also an illustration of the distinction between Familiarity Reliance-Based Trust and CSQ Reliance-Based Trust, leading to a general expectation that CSQ Reliance-Based Trust may be more prevalent in work relationships than Familiarity Reliance-Based Trusts (see below).

The second example is a description of the requirement the entrepreneur JH has of a possible future full time employee, and thus illustrates the type of trust he feels he would need to be able to place in that person. The person's abilities in the particular work situation would need to be well known to JH such that JH would be willing to allow the person to deputise for him. The nature of the relationship would have to be rather more developed than an arm's length transaction as might occur, for example, were the person to be employed as a result of an advert. Unlike Dependence-Based Trust, where an individual is trusted with something the other cannot do, CSQ Reliance-Based Trust occurs where someone is trusted to do something another person can do just as well. In this particular example there is also the added complication that this is the first time JH has employed a full time member of staff, with the result that he feels his lack of knowledge of hiring individuals in the past requires him to know the individual personally.

#### Confidence-Based Trust

With reference to the criteria discussed above, Confidence-Based Trust may be seen in the following transcriptions.

- 14) "I never take advice automatically, but essentially I take IR's (the business angel) advice; he is a guy I trust very greatly. He is Chairman of the Board. He guides us on strategy and on how to make money out of the technology by getting products to markets. Experience shows me that IR is a pretty trustworthy person. I know why he is involved with

the business, I mean he is involved partly because he wants to make some money because that is essentially what he does. But I know that is not the whole motivation, and that part of it is because he sees parallels with what I am doing and what he was doing ten or fifteen years ago, and I mean even more what he maybe would have liked to have done maybe a little earlier than he did it. He is also involved because he sees there is something to contribute.

"I mean there have been a lot of people who have tried to be involved in this business who didn't actually have something to contribute, but thought they could get something out. Now IR is, if you like, the complete opposite side of that, in that he can certainly get something out, though he hasn't ever had anything out of it yet, in purely financial terms, although he has certainly put a lot in financial terms, but in other terms there is also a lot he can put in, and he has identified with that and I have identified with that" (13/AB).

This example provides both a further illustration of the impact of time and experience of the relationship on the development of the trust that exists, and of the fact that all trust relationships are based some form of exchange. With Confidence-Based Trust, however, there is far more to the relationship. In this case there is a clear empathy between the two individuals, the entrepreneur AB and his business angel IR, and a sharing of life experience. In this respect therefore, Confidence-Based Trust may be seen to embody much of the underpinning factors of the Familiarity Reliance-Based Trust examples above. It also seems to embody much of the underpinning factors of CSQ Reliance-Based Trust with, in this example, the angel being heavily involved in the strategic development of the business. Yet Confidence-Based Trust, unlike other types of trust, is essentially based on a mutual

identification and utter confidence in the other person to act in one's own best interests. This may be seen in this case in that IR, unlike other people who have been in the business before (there is an implication of the failure of previous trusting relationships that AB has engaged in), is willing to contribute positively to the business, in the fact that AB takes IR's advice apparently without question, and in the fact that IR is Chairman of the Board of AB's company.

## **FINDINGS**

As has already been discussed, the purpose of the first stage study was to establish the nature and extent of trusting relations in the small business; to 'put boundaries around ignorance'. Having coded the data it was then collated by trust subject (the trusted party) and, separately, by trust object (the specific task or issue for which the trust subject is being trusted; the situational cue). This was in order to explore the occurrences of trust in different situations, and assess the applicability of the criteria and establish patterns of relations between situations and trust types. The results of these analyses are presented overleaf as Table 1 and Table 2 respectively. This section provides a discussion of the results, before conclusions are drawn in the form of indicative answers to the six research questions listed above, and areas for further research suggested.

### *Table 1*

#### **Results**

It may be seen from Table 1 that the frequency of trust types and related subjects alters according to the type of trust under consideration. The trust type most frequently identified as operating in the small businesses in the study was Dependence-Based Trust (29% occurrence), and was identified as operating only in relationships that entrepreneurs had with individuals outside the business. This was particularly with regard to dealings with accountants (26%), banks (26%), funding bodies (23%) and



solicitors (11%)<sup>1</sup>. The next most frequently occurring trust type was familiarity-based trust (28%), two thirds of which were present in relationships between the entrepreneur and people s/he considered to be inside (i.e. intimately related to) the business<sup>2</sup>. This included customers who, when mentioned (9 out of 27 interviews), were without exception felt to be heavily involved in the business. Other individuals with whom familiarity-based trust relationships existed included friends (20%), parents (14%) and other family (12%). Familiarity-based trust relationships identified as existing with individuals considered to be outside the business included other businessmen and bank managers.

The third most frequently occurring trust type was CSQ Reliance-Based Trust (21%), half of which were present in relationships inside the business and half of which were present in relationships outside the business. Understandably, CSQ Reliance-Based Trust relationships inside the business were established mainly with staff (34%) and, to a much lesser extent, customers and friends. Entrepreneurs had, however, established CSQ Reliance-Based Trust with a much larger range of people considered to be outside the business, including businessmen, accountants, competitors, suppliers, and supplier representatives. The fourth most frequently occurring trust type was Faith-Based Trust, with all such relationships being outside the business with funding bodies. The least frequently occurring trust type was Confidence-Based Trust (9%), with all Confidence-Based Trust relationships occurring inside the business. The majority of these (62%) were formed with business partners.

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<sup>1</sup> The small sample size renders low frequency responses (such as those mentioned by only one or two entrepreneurs) unusable for even indicative findings, since they carry with them specific issues that apply solely to individual entrepreneurs and/or firms. For a list of these responses, see tables.

<sup>2</sup> This included customers who, when mentioned, were without exception felt by the entrepreneurs to be so involved in the businesses as to be considered effectively a part of them.

**Table 1. Proportions of Trust Types and Subjects in the First Stage Study**

TRUST TYPE	FREQU -ENCY	%AGE	IN/OUT -SIDE	FREQU -ENCY	%AGE	SUBJECT	FREQU -ENCY	%AGE						
Confidence	16	9%	Inside	16	100%	Partner	10	62%						
						'Spouse'	03	19%						
						Staff	02	13%						
						Family	01	06%						
Familiarity	51	28%	Inside	34	66%	Friends	10	20%						
						Parents	07	14%						
						Family	06	12%						
						'Spouse'	06	12%						
						Customers	05	10%						
			Outside	16	34%				Businessmen	10	20%			
									Bank Manager	03	06%			
									Colleagues	01	02%			
									Suppliers	01	02%			
									Town Planning Department	01	02%			
Comprehensible Situational Cue	38	21%	Inside	20	52%	Staff	13	34%						
						Customers	05	13%						
						Friends	02	05%						
						Outside	18	48%				Businessmen	04	11%
												Accountant	03	08%
												Competitors	03	08%
			Supplier Reps	03	08%									
			Suppliers	02	05%									
			Bank Manager	01	03%									
			Agent	01	03%									
			Museum Educ- ation Department	01	03%									
			Dependence	53	29%	Outside	53	100%	Accountant	14	26%			
Bank	14	26%												
Funding Bodies	12	23%												
Solicitor	06	11%												
Support Body	02	04%												
Consultant	02	04%												
Informal Investors	01	02%												
Supplier Reps	01	02%												
Journals	01	02%												
Arts Council	01	02%												
Faith	25	13%							Outside	25	100%	Support Bodies	25	100%
TOTAL	184													

**Table 2. Proportion of Trust Types and Objects in the First Stage Study**

TRUST TYPE	OBJECT	FREQUENCY	PERCENTAGE	
Confidence	business development	08	20	
	financial plans/security	07	17	
	day to day running	05	12	
	product/service quality	05	12	61%
	staffing	04	10	
	self development	03	07	
	technological changes	03	07	
	general business issues	02	05	
	competition	01	02	
	control within the family	01	02	
	customer issues	01	02	
	family fit	01	02	37%
	(total)	41	98)	
Familiarity (Inside)	finance	11	23	
	company growth	09	19	
	company direction	06	13	
	future self direction	06	13	68%
	general business issues	04	09	
	product/service development	04	09	
	family fit	03	06	
	clarifying own thoughts	01	02	
	competition	01	02	
	customer needs and wishes	01	02	
	finding work	01	02	32%
	(total)	47	100)	
Familiarity (Outside)	general business advice	05	33	
	finance	02	13	
	future self direction	02	13	
	product/service development	02	13	72%
	finding work	01	07	
	product quality	01	07	
	relationship building	01	07	
	markets	01	07	28%
	(total)	15	100)	
CSQ (Inside)	product/service development	10	37	
	day to day running	04	15	
	staffing	04	15	
	main business product	03	11	78%
	customer demands	02	07	
	finance	02	07	
	business growth	01	04	
	technology	01	04	22%
	(total)	27	100)	

Table 2. Proportion of Trust Types and Objects in the First Stage Study ctd

TRUST TYPE	OBJECT	FREQUENCY	PERCENTAGE	
CSQ (Outside)	product/service development	08	35	
	technology	04	17	
	customer demands	03	13	
	general business advice	02	09	74%
	accounts	01	04	
	banking and finance	01	04	
	company direction	01	04	
	competition	01	04	
	marketing and sales	01	04	
	staffing	01	04	26%
		(total)	23	98
Dependence	finance	27	45	
	accounts	11	18	
	legal matters	06	10	
	start-up	05	08	81%
	marketing	04	07	
	finding work	02	03	
	product/service options	02	03	
	general business advice	01	02	
	state of the industry	01	02	
	technology	01	02	19%
	(total)	60	100	
Faith	start-up	25	100	

#### Discussion

With regard to other **Dependence-Based Trust** relationships, and **Faith-Based Trust** relationships, the results indicate that trust subjects are those who are engaged in simple arm's length transactions and exchanges of knowledge or commodities not held by the other party. This would also be expected to be the case for the majority of customer relations (see below). The high numbers of Dependence-Based Trust relationships indicated by the entrepreneurs in this study would be expected, due to the number of arm's length transactions in which small businesses engage (e.g. with solicitors, accountants etc.). The role of the third party co-ordinator in instances of Faith-Based Trust, and the type

of trust placed in him/her was not readily apparent, although one might expect this to be at least either a familiarity-based or a CSQ Reliance-Based Trust relationship. From transcript 6, however, in which the co-ordinator was Graduate Enterprise, and from which the entrepreneur was 'buying' knowledge, it is possible that such relationships may be dependence-based. This is an area for further research (see below).

The small numbers of **Confidence-Based Trust** relationships found in the study would also be expected, due to the fact that Confidence-Based Trust requires substantial (social) investment on the part of the individuals concerned. This would also account for the types of people with whom entrepreneurs were developing Confidence-Based Trust relationships, being people they have known for a long time and with whom they are closely connected, either socially or in business. One might expect, however, that at least one such relationship would be present in the majority of businesses, even those that are owner-managed. The fact that this is not the case, however, may be indicative of entrepreneurs not establishing such relationships in their business, but relying instead on their own knowledge and judgement. Such 'self trust' may be seen in the following extracts.

15) "If you are in business after eleven years then you don't need any advice because you are doing something right" (03/DD).

16) "I tend to do everything myself...I don't follow people's advice. I hear what they have to say and do what I feel I should do... By the time you [have] spent a year or two, you learn from yourself, who you are and how you do things" (14/SC).

17) "I have become very wary of advice; an opinion is easy. It's cheap. I have spoken to all sorts of people. LECs, job centre, Wildlife trusts and so on, where appropriate... But I have got to the stage where I don't have very much confidence in other people anymore.

I have lived with the consequences of bad advice from other people for the past three years, and I have become more aware that a person I should rely on more is me" (26/JG).

Each of these examples indicate self trust to be a function of time and commitment to the values the entrepreneur has set him/herself, which would *equate* to Confidence-Based Trust. The last of these examples (26/JG) also provides an illustration of how general trust of others, being affected as a result of the experience of past situations (other people giving advice in the past), affects trust levels in a given situation (in this case current decision making regarding the future of the business)<sup>3</sup>.

With regard to **CSQ Reliance-Based Trust**, it would be expected that such trust is present in relationships the entrepreneur has with staff and suppliers and customers, as well as with friends who may have got to know more about the business, and this is borne out by the results. While the number of trust relationships with accountants that are CSQ reliance-based is small, they are interesting in that they indicate the development of a dependence-base trust relationship into a CSQ reliance-based relationship, as the following extract illustrates.

- 18) "The thing about an accountant is that you can trust him - you know you've got to trust him - so I think my decision to choose him was really based on that; whether I trust him or not... (and) I have known him for a long time... (But) quite shortly I probably won't need him to do what he's been doing. Now for the end of year accounts for this coming year the books are ordered and I should be able to do those now and for this coming season I will probably be doing the books... I mean, I keep the books very well, but with accounting things you can get a bit lazy... You can just go to him and

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<sup>3</sup> In so doing, this example also provides an illustration of the need for clarity regarding correct identification of each trust situation during analysis.

say the VAT returns are needing done, the end of year accounts are needing done and he'll do it...." (07/JG).

In this example, the entrepreneur JG has learnt how to do the books for the business, so he no longer needs the accountant to do the book-keeping. One might expect, therefore, for a Dependence-Based Trust relationship to end since there is no longer a need for it. However, with time, the relationship has developed to become one based on CSQ Reliance-Based Trust, encompassing a strong element of predictability, and with JG now trusting the accountant to do things he himself could do.

It also follows that **Familiarity Reliance-Based trust** is present in relationships the entrepreneur has with social relations (i.e. friends, parents, family, 'spouse'), and this is further indicated by the results. The role this type of trust plays in the business was seen in transcript 11 above where, even though he knew very little about the business, PH's father would still be used as a sounding board by the entrepreneur, in order to get a different view of the business. The importance of such familiarity-based trust relationships is clearly illustrated in the following extract.

19) "You want to get around you four or five people whose judgement you trust - they don't have to be doing the same thing you're doing - they've got experience in business and you can just go and talk to them... So if you are not sure about something, they are the people you talk to... I did that as a way of supporting myself - an informal group selected mainly from their level of experience in business. I never went for somebody who was too flash, but those who spoke a lot of common sense and whom I got on well with. Some I met initially on a business level [i.e. suppliers or customers; see below] - others I knew on a social level. All older, at least twenty twenty-five years older. I've got good

relationships with them and the advice is extremely useful" (07/JG).

With regard to the fact that only nine of the twenty seven entrepreneurs in the study mentioned their relationship with customers, but that those who did mention customers had developed familiarity-based or CSQ Reliance-Based Trust relationships<sup>4</sup>, two further comments may be apposite. First, since all the businesses, by implication, had developed customer relationships, it may be assumed that the majority of customer relationships concerning the businesses in the study were simple arm's length transactions, indicative of Dependence-Based Trust. This would account for their relatively infrequent appearance in the study, since a large number of entrepreneurs may not have considered such customer relationships as worthy of mention. Further investigation of the nine entrepreneurs who had formed either familiarity-based or CSQ Reliance-Based Trust relationships with their customers, however, reveals that all had a turnover in excess of £50,000, and five had a turnover in excess of £200,000. Since only a further nine of the remaining eighteen businesses in the survey had turnover figures in excess of £50,000, this might indicate that well developed trust relationships with customers are one of the requirements for small business growth.

#### *Table 2*

#### Results

It may be seen from Table 2 that the frequency of trust types and related objects also alters according to the type of trust under consideration. The most common issues considered within Confidence-Based Trust relationships were business development, financial planning and (personal) security, day to day running of the business, and the quality of the product or service provided by the business. These issues accounted for 61% of issues considered. Other issues included staffing, self development and technological changes. The most common issues considered within familiarity-based

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<sup>4</sup> One entrepreneur (20/DK) discussed a number of customers, some of whom he had established familiarity-based trust relationships with, and others he had established CSQ Reliance-Based Trust. This accounts for 10 customer responses, rather than 9, listed in table 1.



trust relationships inside the business were finance, company growth, company direction and future self direction, accounted for 68% of issues considered. With regard to familiarity-based trust relationships outside the business, general business advice, finance, future self direction and product/service development, accounted for 72% of the issues considered.

Prominent issues discussed within CSQ Reliance-Based Trust relationships inside the business were product/service development, day to day running, staffing, and the main business product, which accounted for 78% of the issues considered. With regard to CSQ Reliance-Based Trust relationships outside the business, product/service development, technology, customer demands and general business advice were most frequently considered and accounted for 74% of issues. Dependence-Based Trust relationships were concerned primarily with finance, accounts, legal matters and start-up issues, which accounted for 81% of issues considered, while Faith-Based Trust relationships were concerned solely with start-up.

#### Discussion

With regard to **Faith-Based Trust relationships** and **Dependence-Based Trust relationships**, the nature of the start-up as a crisis situation is such that, were there to be Faith-Based Trust relationships present, one would expect them to occur at this time as the results indicate. One would also expect financial, accounting and legal matters to be dealt with through dependence-based relationships. This is because the complexity of such matters, being relatively unknown to the entrepreneur, are ones that have to be delegated to individuals often relatively unknown to the entrepreneur in which the entrepreneur may be able to limit the risk involved in having to delegate these matters to others by establishing contractual obligations (see footnote 3 above).

With regard to **familiarity based trust relationships**, results identifying trust objects such as finance, company growth and future self direction are consistent with the search for different views and knowledge bases obtainable from those with whom the entrepreneurs have formed social relationships,

as referred to in the above discussion on Familiarity Reliance-Based Trust subjects. In the case of CSQ Reliance-Based Trust, it would be expected that issues highlighted in the results such as product and service development, day to day running and staffing, would be at the centre of such relationships, along with large amounts of routine (i.e. operational) task delegation. The concept of routine in this case would be related to the trust subject's particular competencies which are the reason behind the CSQ Reliance-Based Trust. This is illustrated in the following extract.

20) "We also have a close relationship with an independent furniture designer. I have known him since 1989 and he has got years and years of experience. I talk to him once a week about products and design generally. Because we have worked together for a while, I will give him an idea, or he'll have an idea, and he will first come up with a sketch which he will send to me and I will say okay and he will then go ahead and make it... I don't tend to talk about strategic issues and customer solutions to him. He's a good designer, but I won't get him involved in our market; he doesn't understand the finer details" (16/BD).

In this example, the entrepreneur BD is discussing a CSQ reliance-based relationship with one of his suppliers, in which his increasing trust in the supplier has led him to delegate a number of highly specialised, but *routine to the supplier*, tasks. Yet, in spite of the specific abilities and knowledge of the supplier, BD will not trust him with anything other than design work. Thus, strategic planning and marketing are never discussed. This extract therefore not only illustrates the implicit link between trust and co-operation, but also how trust in one situation does not necessarily equate to trust in another situation (see also below).

With regard to trust objects relating to **Confidence-Based Trust relationships**, it would be expected that major issues of strategic importance to the business would be of central concern, such as business development and financial security, and this is borne out by the results. The close involvement of the individuals in the business would also indicate that other, more general operational issues would be discussed, such as day to day running, technological changes, and staffing, and this is also indicated by the results. Confidence-Based Trust relationships, with the large amounts of delegation, sharing of ideas and adopting of advice (see, for example, transcript 14 above), therefore, may be seen to play a crucial role in the development of the businesses under study. This is also indicated by the amount of risk (as perceived by the observing party - see Chapter III above) such delegation involves. This is because if the trust in the individual is misplaced, the consequences for the business may be substantial. This is illustrated in the following extract.

- 21)           While I am pregnant I am going to have to rely on others to sort problems out. There is one person in particular, L... L is invaluable to me. But a very strange thing happened last week. Her ex-employer called me up. L had left under a cloud - a very bad relationship, purely personal - to tell me did I know that L had started her own business using my van to go around and, you know. And I thought 'I know that's not true. But then if somebody goes to the trouble of phoning you up to tell you, then maybe it is true'. So I did a bit of detective work and found out that it was just a tissue of lies and it was just totally vindictive and undermining behaviour. And of course I talked to L about it on Tuesday once I had got my story straight, because on the Monday all I would have been able to say to her was 'have you started your own business?' And that question would have had all sorts of implications. You know? [pause] But by the Tuesday we

discussed it and I subsequently was able to write to the ex-employer saying that I have never had to question her integrity. But that was a real shell-shock to my little business, because if she was doing the dirty a) my whole sort of sense of ability to value or judge somebody's character was going to be thrown out of the window, and b) where did that leave me?" (19/BJ).

In this example, the entrepreneur's Confidence-Based Trust in an employee, L, is called into question by an outsider, with a number of potential consequences. With regard to perceived risk and delegation, it is interesting to note that although (from other transcript evidence) under normal circumstances BJ does not perceive there to be much risk in delegating substantially important tasks and decisions to L, BJ's perception of the risk involved alters dramatically with the possibility that L is misusing her trust. This example also illustrates the fact that trust is a perceived phenomenon, and that two trust relationships exist between two people. In this case, there is the trust of BJ in L, and there is also the trust of L in BJ, which we may infer has not altered, but which might have altered significantly had BJ questioned L immediately, with potentially hazardous consequences for both the relationship between the two individuals and the business, in the form of a change in L's willingness to co-operate with BJ - a fact that BJ is very aware of. This is therefore further illustration of the link between trust and co-operation noted in transcript 20 above, and is an area for further research (see below).

Finally, the story in the above transcript also provides an illustration of the impact a) of the speed with which trust in others, as well as trust in one's own judgement, can be called into question, even by an unknown outsider, and also b) of how after verification, trust in the individual concerned (and also in one's own abilities) may be strengthened, since there is then confirmatory evidence of the validity of the trust relationship. It is also provides an illustration of i) the potentially wider impact of alterations in individual interpersonal trust relationships on the business, and ii) the potential impact of broader political and social influences on both the entrepreneur and the small business. Lastly, it provides further evidence of the way in which entrepreneurs see their lives as intertwined with the

businesses they own and, hence, of the need to concentrate on the entrepreneur as the main unit of analysis in small business research.

## **CONCLUSIONS AND IMPLICATIONS FOR FURTHER RESEARCH**

This chapter has attempted to map out the nature and extent of trusting relationships in the small business. Referring to the research questions proposed, the findings provide some evidence for the following answers.

### **1. Who trusts, and is trusted, within the business?**

A. The entrepreneur, business partner, 'spouse', staff, family, customers, and friends.

### **2. Who trusts and is trusted outside the business?**

A. Other businessmen, the bank manager, competitors, suppliers and representatives, the accountant, solicitors, and funding bodies.

### **3. Who is trusted with what types of situational trust?**

A. i) Confidence-Based Trust: business partner, 'spouse', staff.

ii) Familiarity-based trust: friends, parents, family, 'spouse', customers, businessmen.

iii) CSQ Reliance-Based Trust: staff, customers, businessmen, accountant, competitors, suppliers and supplier representatives

iv) Dependence-Based Trust: accountants, banks, funding bodies, solicitors, (customers).

v) Faith-based trust: support bodies.

4. What types of situational trust are most common in a small business setting?

A. Dependence-Based Trust and Familiarity Reliance-Based Trust.

5. What types of situational trust are most important in a small business setting?

A. Confidence-Based Trust and CSQ Reliance-Based Trust.

6. What types of situational cue/trust object are most prominent with what types of situational trust?

A.:	TRUST TYPE	OBJECT/Situational cue
	Familiarity Inside & Outside	general business advice
	Familiarity & Confidence	business growth product/service development
	Familiarity & CSQ	product/service development
	CSQ Inside & Outside	product/service development
	CSQ & Confidence	business development product/service development day to day running
	Dependence	finance and accounting
	Faith	start-up assistance

#### *Contributions and Areas for Further Research*

In conclusion, the work presented here indicates that the building of long term trust relationships between the entrepreneur and other members of the business, and between the entrepreneur and key customers, appears to be essential for successful small business growth. The Theoretical Model of Situational Trust Development appears to allow the accurate identification of different trust types in the field, and appears to be able to correctly represent the development of interpersonal trust over time.

By providing a means for accessing and studying the processes that go towards the formation of business relationships at the level of the entrepreneur, the chapter has shown that trust theory also provides a means by which to access the wider social and political processes that have remained relatively untouched by previous studies restricted to business level analysis - the research of which has been argued to be of crucial importance to the future development of small business research (Scott and Rosa, 1996).

In the light of the findings, therefore, a number of areas for further research present themselves. It would seem that the most important relationships to track with regard to the impact of trust on business development are those involving CSQ Reliance-Based Trust and Confidence-Based Trust, since these relate to relationships with members of the business and key customers, and are also primarily concerned with strategic decisions, and discussion regarding business direction and day to day running. Future study should concentrate on identifying these relationships longitudinally in order to access the processes by which interpersonal situational trust may alter and, consequently, by which interpersonal business relationships develop. In addition, although the type of trusting relationship between the co-ordinator and each of the other two parties in the establishment of Faith-Based Trust was not able to be assessed from this study, other work has highlighted the importance of this relationship (Dibben, Harrison and Mason, 1996). Given the importance of outside funding provision to small businesses at the start-up and early growth stages, further study of the development of Faith-Based Trust and the role of the co-ordinator may also be of value in understanding the processes by which small businesses obtain external sources of finance.

Another area of future study might concentrate on investigating the affect of trust on co-operation. Other work (e.g. Dibben, Harrison and Mason, 1996) has explicitly identified the link between trust and co-operation in the business angel investment decision process, and co-operation between individuals may also be seen in a number of the extracts discussed above (see, for example, transcript nos. 5, 6, 7, 10, 13 and 14 above). Future study could therefore usefully be aimed at exploring the link between trust and co-operation in the small business longitudinally, as this would also enable

predictions regarding the affect of trust on co-operative behaviour, and of co-operative behaviour on trust, to be examined. Since co-operative behaviour comes about as a result of two trusting relationships (see the discussion following transcripts 20 and 21 above), further research should also aim to access both of the individuals in the relationships being investigated, something which this study was unable to do, except by inference, as access was limited solely to the entrepreneur.

A further area of research, related to types of trust required for co-operative behaviour in different situations, might also concern the notion of 'insufficient trust', as opposed to 'distrust'<sup>5</sup>. This would apply in particular to the situations described in transcript 20 above, and it is suggested that, rather than the level of trust changing, it is the requirements for co-operation that alter (see Dibben, Marsh and Scott, 1996 and Dibben, Harrison and Mason, 1996). This is also related to the need to also explore further the relationship between levels of trust, risk and delegation. In addition, in spite of its contribution as a research approach which appears to generate data which are as unaffected as possible by the inherent implications of questions directly relating to the topic being researched, the semi-structured interview survey used in the first stage study could be widened to provide a larger sample, and so explore more fully the possibility of associations between types of trust relationships and, for example, size of business, type of business, and turnover, discussed briefly above in relation to the development of trusting relationships with customers.

Finally, the notion of self trust, as intimated by a number of the entrepreneurs in this study (and which would perhaps correlate to much of the work on entrepreneurial personality<sup>6</sup>), is worthy of further study. It is suggested that self trust may be equated to Confidence-Based Trust, and its development related to the Kubler-Ross curve of personal development (Kubler-Ross, 1972), in which initial self confidence gives way to a lack of confidence due to the impact of a crisis, before strategies are put in place to address the problem, which leads to a restoration of self confidence<sup>7</sup>. Indeed, there is substantial evidence of this process in transcript 21 above, with attendant implications for the role of trust in

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<sup>5</sup> I am grateful to Alistair Anderson for pointing this out.

<sup>6</sup> I am grateful to Mike Scott for pointing this out.

<sup>7</sup> I am grateful to Stephen Doughty and Pat Graham for pointing this out.



personal learning and management development<sup>8</sup>. This in turn suggests that each of the other trust types (representing trust in other people) may, within themselves, develop similarly. The next chapter, Chapter V, discusses a number of these theoretical implications in more detail prior to Chapter VI, which presents further field work aimed at exploring the role of interpersonal trust in the small business in more detail in the form of a participant observation study of a Scottish SME.

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<sup>8</sup> I am grateful to Richard Harrison for making this connection.

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## Chapter V

### *Theoretical Implications from the First Stage Study*

*The true method of discovery is like the flight of an aeroplane. It starts from the ground of particular observation; it makes a flight in the thin air of imaginative generalisation; and it lands again for renewed observation rendered acute by rational interpretation.*

Alfred North Whitehead ([1929] 1978)

The previous chapter presented the first of a series of three separate, yet related, field studies exploring the nature and role of interpersonal trust in the small business. The first stage study utilised a semi-structured interview questionnaire to map out the frequency and importance of five situational trust types, identified by criteria derived from the Theoretical Model of Situational Trust Development. It found that, of the five trust types described in the model, Familiarity Reliance-Based Trust and Dependence-Based Trust appeared to be most common in the small business setting, while Confidence-Based Trust and CSQ Reliance-Based Trust appeared to be most important - with regard to their relative impact on business development. Commensurate with this was the finding that the Theoretical Model of Situational Trust Development appears to allow an accurate identification of different trust types in the field, as well as a correct representation of the development of interpersonal situational trust over time. Analysis of transcripts from the first stage study also identified the impact of co-operation on trust and raised the notion of 'insufficient trust' (as opposed to distrust) affecting co-operation, and found evidence of the impact of self trust on the part of the entrepreneur. It also identified the need for further study to concentrate, where possible, on a longitudinal approach to measure the effect of changes in trusting behaviour of each of the individuals in the trusting relationship over time.

A number of theoretical implications arise from the first stage study, therefore, and concern first the ability of the current model to account for co-operation and the combined impact of changes in the interpersonal trust of individuals on business development<sup>1</sup>, and second the ability of the current model to access the micro processes involved in the development of trust and co-operation at the interpersonal level. It follows that the purpose of this chapter is to modify the existing model in order to account for these issues, and so more accurately represent the development and impact of interpersonal trust in the small business. The chapter will briefly revisit a number of the first stage study transcripts, in order to identify and discuss trusting instances not covered by the existing theoretical framework. As a result of this discussion, the notion of co-operation and its relationship to trust will then be explored, and a number of co-operation determinants derived with the aim of explicating this relationship. In order to explain the theoretical workings of these determinants they will then be applied in the first instance to a hypothetical situation and, in the light of the findings from this application, further explanation will be provided in the form of a number of case illustrations taken from first stage study data. This is in order also to check the degree to which the co-operation determinants are operationalisable. As a result of the findings from the various applications a Model of Co-operation is proposed, integrating the Theoretical Model of Situational Trust Development with the determinants of co-operation. As a result of these theoretical developments, it is suggested that, regardless of the effect of co-operation, trust plays a role of overriding importance in business relationships. This is both because of the direct impact trust is seen to have on business relationships, and because of the identification of its key role in determining co-operative behaviour in those relationships. The chapter concludes with a brief discussion of areas for further research.

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<sup>1</sup> Other than raising the notion of self trust as a theoretical concept worthy of further study, drawing a possible parallel between it and self-confidence, and suggesting a further relation to the Confidence-based Trust type in the Theoretical Model of Situational Trust Development, the development of the notion of self trust as an operationalisable intrapersonal trust concept is beyond the scope of this research. This is for three reasons. First, the research is expressly concerned with the role and impact of interpersonal trust between one individual and another, the development of such trusting relationships and their impact on business development, rather than trust in oneself. Second, any study of the role and impact of trust in oneself would require an inherently psychological approach (see for example Salgado et al, 1994, which uses Thematic Aperception Tests to establish links between numerous psychological constructs including self confidence and basic trust), necessitating the overtly substantive, objective, quantitative epistemology of that discipline. Such an approach is not compatible with that adopted here, which is based entirely on the opposite epistemological position (see Chapter II). Third, any such study would require prior training in psychology, a discipline of which the author has no knowledge. For a (broadly philosophical) discussion of self-trust see, for example, Lehrer (1997).

## FIRST STAGE STUDY REVISITED

As has been discussed in Chapter IV, the primary purpose of the first stage study was to establish the nature and extent of trusting relations in the small business. In so doing, the study data uncovered some of the complexity of the relation between interpersonal relationships, the trust that exists within them and the impact of this on behaviour, for example in strategic decision making and its operational implementation. The central indication of such trusting behaviour may be seen, as Powell notes (1990:326), in a willingness to co-operate. A re-examination of the first stage study data reveals a number of such instances, as may be seen in the following transcript extracts<sup>2</sup>.

22) "The most important relationships are between ourselves and the artists and ourselves and the clients. If I don't have artists I don't have a gallery, and if we don't have clients, then we don't have sales and these artists cannot, sort of, survive" (10/JH).

23) "I see my role as trying to take the business into the future. My wife's role is looking after the customers that I get here, once they have got here. Unfortunately, what also falls to me is all the administrative and day to day management that I wish to delegate. And we have just taken on two part time staff to help me here" (26/JG).

Both of these examples indicate the day to day importance of co-operation in the operational running of the small businesses concerned. In the first example (10/JH), the entrepreneur JH notes the

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<sup>2</sup> The numbering of extracts follows from the previous chapter, which contained 21 separate extracts. This is in order that extracts may be traced reliably by number throughout their use in the research.

fact that his entire business hinges on the co-operation between his gallery (i.e. himself) and the artists that exhibit in it, and on the co-operation between himself and his customers, whose trust of JH is indicated by their willingness to buy the paintings on display. In the second example, the entrepreneur JG illustrates the need for co-operation in order for the business to function, since it is only by co-operation that all the tasks required for the business to run effectively can be completed. In both cases, trust of the individual parties involved is apparent, in that each is trusting the other to perform certain tasks for them. This in itself is a further indication that exchange is an inherent part of all trust relations, regardless of whether they comprise mainly Dependence-Based Trust, as in extract 22, or a mix of Familiarity-Reliance Based and Confidence-Based Trust, as in extract 23 (see Chapter III and Appendix 8 for ways in which different trust types may be identified).

Co-operation is also a necessary prerequisite of successful business development, as may be seen in the following transcript.

- 5) "I mean there's been tentative approaches made to other people, it could well be that we go into partnership - it's almost a back scratching exercise... So there could be some sort of thing where [they] buy [it], we have it in our [place], we do all their work for them and swap client data and so on..., that's really the way forward" (09/PH).

In this example, the entrepreneur PH is explaining the fact that for his business to develop, he will need to co-operate with other businesses. Indeed, this is so important that the co-operation may need to be to such a high degree that a partnership is required. This is not to say that all co-operative behaviour is necessarily so involved, or potentially long lasting. Co-operation may be limited in nature, as seen in the following transcript.

- 6) "They (PSYBT) just gave us the money when we started up  
- we were put in touch through Graduate Enterprise. And  
that was that. They never really wanted to know what was  
going on, and we paid them back" (03/DD).

In comparison with extract 5 above, which implies a need for well developed trust relations (although there is not enough information in the extract, the nature of the collaboration under discussion would indicate the need for CSQ Reliance-Based Trust), extract 6 is indicative of less sophisticated trust relations (in this particular case, Faith-Based Trust; see Chapter IV for a discussion). These examples therefore suggest a possible relation between the importance of the situation (as a result of, for example, the stakes involved for each of the individuals in the relationship), co-operative behaviour and the type of trust present in the relationship.

The complexity of co-operative behaviour possible in the small business context may be seen in the following transcript.

- 24) "The relationship with HG [a Venture Capital company] is good; they like to be involved and they want to give us money. When your Venture Capitalist is prepared to come along and add his weight, that's a great help. There is a flip-side to that relationship and that is you never know what is going on in his mind because all his interests don't coincide with all of ours; if he did, everything would be rosy" (13/AB).

In this example, the entrepreneur AB explains the value of the co-operative behaviour of his business angel in helping him secure extra funding for the business. In doing so, however, he also implies that differences between them can lead to occasions where the business does not develop in the way he might



wish. In the first instance, therefore, this is an illustration of the two-way nature of co-operation, since two sides may have different goals but still co-operate in certain situations, but not in others. In this case, therefore, it may be seen that it is not the nature of co-operation which is limited (as in extract 6 above), but rather the degree of co-operation. This is both because of the different motivations of the two parties to be in the relationship, and also because of the different stakes which each party has in the relationship. Where the two parties' interests coincide co-operation ensues, but where they do not there is the implication that co-operation does not occur, causing difficulties which AB at least could do without. It appears from this example, therefore, that co-operative behaviour on the part of one of the individuals in the relationship does not result in co-operation unless the other individual also engages in co-operation.

The stakes involved for each party in the previous example are indicative of the possibility that a number of factors (one of which may be stakes for the individuals) come into play to influence trusting, co-operative relationships at the situational level. A further illustration of such determinants may be seen in the following transcript.

20) "We also have a close relationship with an independent furniture designer. I have known him since 1989 and he has got years and years of experience. I talk to him once a week about products and design generally. Because we have worked together for a while, I will give him an idea, or he'll have an idea, and he will first come up with a sketch which he will send to me and I will say okay and he will then go ahead and make it..." (16/BD).

In this example, the entrepreneur BD describes the co-operation that ensues between himself and an outside design consultant, emphasising the importance of the age of the relationship, their frequent communication and the fact that the consultant is highly skilled. There is, as a result, a clear indication

from the extract above of a very relaxed relationship between BD and his consultant, with a free exchange of ideas, regardless of the fact that the consultant is not a member of the business; work is suggested and carried out with only a verbal agreement. While this is an example of CSQ Reliance-Based Trust (see Chapter IV for a discussion), the level of co-operation between the two individuals is very evident, with no guarantee on the part of the designer, that he will be rewarded with a large supply of orders for his efforts. It appears from this example, therefore, that where a sufficiently strong trust relationship exists the willingness to co-operate on the part of one or both of the parties will be correspondingly high, even where returns are not immediately apparent.

### **ADDITIONAL THEORETICAL CONSIDERATIONS**

From the preceding discussion it has been seen that, while the Theoretical Model of Situational Trust Development allows for the identification and mapping of different situational trusts seen to be operating in the small business setting, the model fails to adequately account for the importance of co-operation and its relation to trust. This may be explained in terms of the fact that the model was originally designed primarily to allow the successful identification of different trust types in operation in the small business, rather than provide a means of unpacking the complexity of the relationship between interpersonal trust and co-operative behaviour. Nevertheless, if the model is to fully illustrate the nature and role of trust development in the small business, these shortcomings need to be addressed. The purpose of the following sections, therefore, is to provide the theoretical additions necessary for the further development of the model.

#### ***Trust and Co-operation***

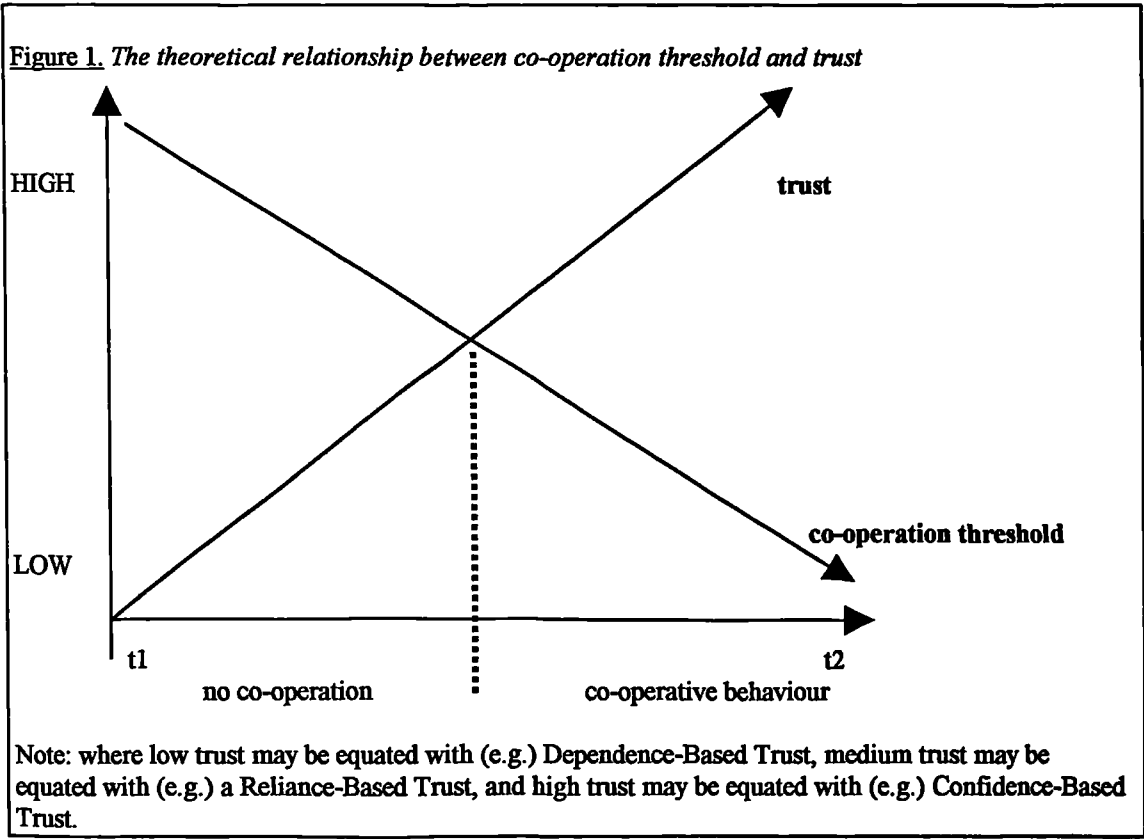
The previous section highlighted the fact that co-operative behaviour is present in many of the trust relationships examined in the first stage study, and it was mentioned that one of the key identifiers of such trust relationships may in fact be co-operative behaviour. Such findings are supported by other research into the nature of social interaction. Argyle (1990), for example, claims that co-operation is

essential for effective communal relationships, since it enables co-ordination between individuals for the attainment of mutual reward. Co-operation requires trust "whenever the individual... places his fate in the hands of others" (Deutsch, 1962:203), and when they do not co-operate the trust placed in them is violated. It follows that in the event of violations of trust, the absence of co-operation is most apparent, and any subsequent trust repair requires both parties to be willing to commit themselves to the repair process by re-engaging in co-operation. (Lewicki and Bunker, 1996:136; Bies and Trip, 1996:258). Mutual trust therefore "plays a central role in a successful [business] co-operation" (Volery, 1995), reducing "the need for monitoring behaviour and [providing] greater speed in making decisions (Shapiro et al, 1992:365). It follows, conversely, that "co-operation breeds trust" (Putnam, 1992:171, in Meyerson et al, 1996).

The relationship between trust and co-operation may be explained further by reference to the previous description of trust as an internal event which may be inferred from external action, which is in turn brought about by "believing we trust someone enough to engage in [that trustworthy] action" (Gambetta, 1990:222); the engagement in trustworthy action is the engagement in co-operation. The threshold for co-operation will not only "vary subjectively [cf. basic trust]..., but also in accordance with objective circumstances [cf. situational trust]" (ibid). A comparison of situational trust and co-operation threshold, therefore, will enable a prediction of co-operative behaviour in a given situation, since where trust is deemed to be greater than the co-operation threshold *for both individuals*, co-operation should ensue, and vice-versa (Marsh, 1995). This interaction between trust and co-operation threshold, resulting either in no co-operation or co-operative behaviour on the part of each of the individuals in the relationship is shown as Figure 1 below. Where trust is higher than the co-operation threshold for one of the individuals but not the other, then the relationship would be expected to undergo a period of stress during which the co-operating individual's trust is likely to be felt to be being violated by the unco-operating individual. Referring back to the transcript examples above, this may indeed be summarised from AB's discussion of the relationship between himself and his business angel in extract 24. Such comparisons of situational trust and co-operation threshold may, therefore, also provide an indication of how trust might influence individual behaviour. In order to achieve such a comparison, however, it is

necessary first to come to a workable understanding of what may determine co-operation in a given situation.

As was seen in Chapter I, a number of trust studies have produced long, and essentially similar, lists of trusting behaviour determinants, of which one commonly occurring - or, at least, implicated - one is co-operation, regardless of the academic discipline in which they are grounded<sup>3</sup>. In order to overcome this complexity, and thereby attempt a greater understanding of the influence trust has on interpersonal relationships, a number of trust formalisms have been constructed. The use of formalisms as simplifying, yet rigorous analytical tools in research on decision making in organizations is well established, but has tended to yield increasingly complex and multilayered formalisms (see, for example, Shelly and Bryan, 1964, and Jungermann and de Zeeuw, 1977). In an effort to simplify the trust concept for use in Artificial Intelligence, Marsh (1992, 1995) structured a limited number of key determinants as a Computational Trust Formalism.



<sup>3</sup> See for example Mayer et al (1995) for a further review.

## **THEORETICAL DETERMINANTS OF CO-OPERATION**

An exploratory application of the Computational Trust Formalism to entrepreneurship was made by Dibben, Marsh and Scott (1996), in an attempt to elucidate the trusting, co-operative behaviour of individuals in new venture crises. In addition to situational trust, this study found that accurate predictions of trusting co-operation could be made by taking into account the following four determinants: perceived risk, importance, and utility of the situation for the trusting individual, and the trusting individual's perceived competence of the trusted individual. These four determinants of co-operation are explored further below, and their relation to the Theoretical Model of Situational Trust Development discussed.

Adapting the work of Marsh (1995) and Dibben, Marsh and Scott (1996), each of the four determinants may be defined as follows<sup>4</sup>.

**Utility** An individual's perception of the potential economic value of a situation. While related to utility theory (see, for example Shelly and Bryan, 1964:20-22 for a discussion), the notion of utility as used here is more simplistic, and refers to the potential use of the situation for the individual. As the situation is in a business setting in this case, the most obvious use concerns return on investment. Given its positive connotation, one might expect that the greater the perception of utility, the greater the possibility of trusting, co-operative behaviour.

**Importance** An individual's perception of the potential non-economic value of a situation. This is determined by issues which the individual concerned may hold dear, such as conservation or helping the disabled, but which utility, being based more on economic considerations (Simon, 1955) does not allow for. Being an internal event with a cognitive emotional component (Boon and Holmes, 1991:201), trust "cannot be based on [economic] rationality alone" (Marsh, 1995:59). It is therefore necessary to consider

the subjective opinion of the trusting individual regarding the importance of the situation concerned. Given its positive connotation, one might expect that the greater the perception of importance, the greater the possibility of trusting, co-operative behaviour.

**Risk** An individual's perception of the potential loss (economic or otherwise) from a situation. This is derived from the Oxford English Dictionary definition as "the possibility of meeting danger or suffering harm or loss; exposure to this" (Hawkins, 1986). The link between risk and trust is long established but difficult to clarify (Marsh, 1995:32). Some writers argue that trust cannot be present in a situation unless risk is also present (eg. Coleman, 1990:91 and Luhmann, 1990:97), while others (notably Mayer et al, 1995) do not. Nevertheless, there is wide acceptance of perceptions of risk in determining trusting, co-operative behaviour (e.g. Marsh, 1995 and Nooteboom et al, 1997). Given its negative connotation, one might expect that the greater the perception of risk, the lesser the possibility of trusting, co-operative behaviour.

**Competence** An individual's perception of the professional ability of another individual, as characterised by comments regarding (e.g.) product marketability, finance, and so on. Individuals have a "fiduciary responsibility" to those they deal with (Barber, 1983 [in Marsh, 1995]). The impact of perceived competence on a professional relationship is therefore of importance in a consideration of whether to trust an individual, and it has been noted as a key trust determinant in a number of studies (for example, Clark, 1993, Kee and Knox, 1970, Mishra, 1996, and Tyler and DeGoey, 1996). It has also been expressed in other studies as ability (for example Deutsch, 1960 and Good, 1990), and expertise (for example Hovland et al, 1953 [in Mayer et al, 1995] and Giffin, 1967). Given its positive connotation, one might expect that the greater the perception of competence, the greater the possibility of trusting, co-operative behaviour.

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<sup>4</sup> The model of co-operation under discussion has since been applied to the business angel investment decision situation in a study which builds from the work presented in this chapter (see Dibben, Harrison and Mason, 1996).

## CASE STUDY APPLICATIONS

The previous sections have illustrated the presence of co-operative behaviour in business relationships and proposed a number of co-operation determinants to account for it. The purpose of the rest of the chapter, therefore, is to apply these determinants to a series of cases, in order to further explain their operation and thereby illustrate the way in which trust and co-operation may be seen to operate together in influencing decision making and small business development. These applications will also serve as a brief assessment of the applicability of the model, prior to further field study.

### *Theoretical Application and Relation to the Theoretical Model of Situational Trust Development*

Theoretical application of the above co-operation determinants suggests three basic scenarios, involving low co-operation threshold, medium co-operation threshold and high co-operation threshold. These would come about as a result of different judgements on the part of an individual Y in respect of, for example, the decision to invest in a new business opportunity presented to him by another individual Z, whose business it is. Let us take the development of a high co-operation threshold as the theoretical illustration. Following his assessment of Z's business opportunity let us suggest that Y:

- i) considers its utility - the potential economic profit - to be low;
- ii) considers its importance - the potential non-economic profit - to be high;
- iii) considers its risk - the potential for loss - to be high; and
- iv) perceives Z's competence - in terms of his abilities to manage the particular business opportunity - to be low.

Then in this case, we may suggest that Y's co-operation threshold will be high, since the majority of the co-operation determinants are such as to be inclined against the investment, and that therefore he will not *prima facie* be willing to co-operate with Z by investing in Z's business. Whether Y invests in the business or not, however will depend on a) his trust of Z and b) Z's willingness for him to invest. Since Z has asked Y to invest, we may assume the latter case holds (although in reality this may not always be so). With regard to the former, let us now suggest that Y and Z have been in business together for twenty years and that (by reference to the Theoretical Model of Situational Trust Development) they have a Confidence-based Trust relationship. At once the picture alters, since Y's high trust of Z is sufficient to overcome the high co-operation threshold, and the investment takes place.

A caveat needs to be made regarding this hypothetical case, however. For the sake of simplicity, it effectively disregards the fact that trust, co-operation threshold and even the decision itself comes about over a period of time, and assumes instead that they are all determined instantaneously. Nevertheless, the case provides a useful theoretical illustration of the interrelationship between co-operation and trust, in that high trust of an individual may be sufficient to overcome even the most negative scenarios and result in co-operative behaviour. Furthermore, if we were further to suggest that, because of their relationship, Y is inherently interested in seeing Z succeed regardless of the potential loss to himself, then an indication of the impact of trust on the determinants for co-operation is apparent, since we might summarise that Y's consideration of the importance of the situation in question as high has come about as a direct result of his trust in Z. This implies that the determinant having the most impact on the co-operation threshold may vary<sup>5</sup>, according to the level of trust, the particular situation under consideration, and the personal preferences of the individuals themselves.

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<sup>5</sup> See also Dibben, Marsh and Scott (1996) for a discussion.



*An illustration of unco-operative behaviour*

A more realistic application of the co-operation determinants in relation to the Theoretical Model of Situational Trust Development may be made by further reference to the first stage study transcripts, as follows.

- 25) "Although the relationship is very good, the VCs [venture capital companies based in London] have not invested as heavily as we would like, because they say 'well if you were in London near where we are based £300,000 we could invest, but you're in Scotland and it would have to be half a million before it would be the right thing for us'. Just because of the administration, and we have had two like that, and I don't think they are trying to fob us off, because they would just tell us 'we are not interested' (laughs)" (13/AB).

In this example, the entrepreneur AB discusses the reasons why an investment company will not invest in his business. There appear to be a number of factors operating to produce unco-operative behaviour. A high co-operation threshold on the part of the investor, dominated by a perceived low utility as a result of administration costs, coupled with a (probably) Dependence-Based Trust relationship on both sides the two parties (since each is simply looking for something out of a relationship in which neither has much previous knowledge of the other). Risk is not perceived as being high, since the investor is prepared to invest more money in the business than is being asked for. Indeed, were the situation different (i.e. a request for a higher investment), the utility would be higher and the investment would take place - the investor would exhibit co-operative behaviour. As things stand, however, the nature of the relationship is such that there is insufficient trust on the part of the investor to overcome his high co-operation threshold.

The above example illustrates a number of points. Firstly, it emphasises the impact trust and co-operation may have on the development of a small business, since AB's company will have developed differently had the investor made the investment that was required, purely as a function of that investment. It would also have developed differently had AB agreed to the higher investment sum offered. Secondly, the case illustrates the way in which trust and co-operation threshold interplay to produce an outcome. In the first instance, this will be a judgement on the part of each of the individuals as to whether or not to co-operate, and only if both are willing to co-operate will co-operation occur. It can be seen from this example that one side exhibited co-operative behaviour (AB) while the other side (the VC company) did not, with the result that co-operation was not forthcoming. We may speculate as to the likelihood of a different outcome had the two parties had a relationship based on a different type of situational trust. Thirdly, the case illustrates the way in which one of the determinants for co-operation may come to take precedence over the others, depending on the situation in question.

As a final point, it is also worth noting that AB's use of the phrase 'the VCs' provides a way of simplifying the scenario for the sake of the discussion. In fact AB is talking about conversations he has had with individuals in the companies, who are each putting forward a view based on their knowledge of the dominant thinking in their company. Thinking which is itself derived from a series of discussions between individuals in a position of power in the company (all of whom are engaged in forms of trusting relationships), leading to the establishment of the policy which they are representing to AB. The need to access both sides of the relationship is also apparent from the above example, since we are having to infer from AB's version of events, rather than have the investors' versions first hand.

#### *An illustration of co-operative behaviour*

It was mentioned in the discussion of the previous example that co-operation may have ensued had the situational trust between the two parties been higher (i.e. CSQ Reliance-Based, Familiarity

Reliance-Based or Confidence-Based Trust). The positive effect of higher trust types on co-operation may be seen in the following transcript.

26) "What we have done here really is take the team we had in the other business. They [the directors of the other business] weren't happy and even offered us all sorts of silly deals [to stay], but we had all put too much planning and enthusiasm into it... to make a difference at the end of the day... [despite] people leaving long term contracts and so on...

"We contacted the manufacturer of the product in Copenhagen, and because of our knowledge of a similar product from the other business - which we had worked in for seven years - they quite happily gave us the UK distributorship. From day one. A very large step for them to take as you can imagine. Two [suppliers] wanted to invest money in the business with no managerial involvement..., [and] the two relationships [as investors and as suppliers] are kept separate. Our other suppliers were extremely helpful, too. We were a brand new company with no track record, but they gave us the treatment that they would have given one of their larger companies, because they knew us from the previous company. The same for our customers, who even allowed us to compete for very large [contracts] from day one" (25/JM).

In this example, JM is discussing the start-up stage of her new business, attempts by her former employer to retain her and the team she took with her, and the agreements of suppliers and prospective customers to deal with the new company. Reviewing the extract, it is possible to detect one relationship that ended in no co-operation, and five sets of co-operative relationships, discussed as follows.

With regard to the no co-operation situation, this concerns the relationship between JM (and her team) and the directors of the company for whom she used to work. The limited amount of information available makes interpretation difficult, and some assumptions are required in order to apply the trust-co-operation framework, and so unfold the complexities implicit in the interactions described. It is clear that the directors of JM's former company are keen to retain JM's services and are willing to co-operate with her at almost any cost. As a result, we can summarise they have, collectively, a very low co-operation threshold for this situation, derived from a consideration of the fact that it is intrinsically useful to retain the services of both her and the team (i.e. high importance), that loss of their services will potentially result in a loss of business (with the implication that, if she and the team can be kept on this business will be retained; i.e. high utility), that there is nothing to be lost from attempting to keep them (i.e. low risk), and they value her and the team's abilities (high perceived competence). This is all in spite of the fact that their trust in JM, built up over the seven years and therefore at least CSQ Reliance-Based Trust, has no doubt been violated by her decision not only to leave the business but set up in competition with a key management team poached from them. From JM's point of view, however, the lucrative offer (i.e. high utility) and established position of the old business (i.e. high perceived competence) are far outweighed by the investment she has made in the new business (i.e. high risk) and the fact that there is no reason for her to stay with the old company (i.e. low importance). The co-operation threshold of JM (and presumably those of other members in the team) may be inferred as being high, sufficient that no amount of trust in the directors will persuade her to stay with the old company. Thus, since JM (and team) is not willing to co-operate, co-operation between the two parties involved does not take place.

With regard to the five co-operative relationships identified, these are listed as follows: i) between JM and the other members of the team; ii) between JM (/the team) and the manufacturing company; iii) between JM (/the team) and the investors; iv) between JM (/the team) and the various supplying companies; v) between JM (/the team) and the various potential customers. Each of these co-operative relationships appear to hinge primarily on the high perceived competence of JM (and the team), and high levels of trust on both sides as a result of their knowledge of the individuals concerned, built up over a number of years. This is such that, regardless of the potential risks involved in giving an exclusive distribution agreement to a brand new small company (i.e. high risk, low utility), and in spite of the risks involved in giving credit as suppliers to a brand new company with no track record (i.e. high risk, low utility) leading we may summarise to a reasonably high co-operation threshold on the part of the manufacturer and suppliers (even taking into account the high perceived competence of JM/the team), the trust that the manufacturer and suppliers had in the key members of the new company was sufficient for co-operation to ensue.

With regard to the relationship among the team members, any interpretation is also limited as a result of the small amount of information available. The motivation and planning that each had put into the project indicates that each regarded the project as being very important, with much social profit to be gained from the situation. Whether this might have taken precedence over the loss of security that leaving the established company would involve (i.e. high risk) and (probably) the drop in wages coincident with moving from a large established company to a newly established small company (i.e. low utility) to generate a low co-operation threshold is unclear. Even if the members had each arrived at a high co-operation threshold, however, it is clear that high levels of trust existed among all the members of the team, sufficient for co-operation to take place.

The above transcript example provides a number of insights. First, the no co-operation situation reiterates the fact that, in spite of the presence of trust on both sides, co-operation may not necessarily occur since one of the parties involved may be unwilling to co-operate. Second, as with extract 25 above, this example again illustrates the impact both co-operation and a lack of co-operation may have on

business development. This may be seen, for example, in JM's old company which, as a result of the lack of co-operation on the part of JM (/the team), lost a number of its key personnel. It may also be seen in the development of the new business, which will no doubt have developed significantly differently had it not, for example, been given the right to pursue large contracts by its prospective customers. Third, the case illustrates the way in which the outcome of one relationship may impact on other relationships. This is most strikingly seen, perhaps, in the effect of the decision by members of the team to co-operate in the establishment of the new venture, since this led directly to the creation of the circumstances which resulted in the (Danish) manufacturing company co-operating in (what we may assume is) the significant strategic decision to establish an exclusive UK distributorship, with all the commitments that such a strategy entails (e.g. the provision of point of sale material, pricing structures, and so on).

Two final observations may be made concerning this example. As with extract 25 above, JM's referral to 'manufacturer', 'suppliers' and 'customers' is a way of simplifying the scenario for the purpose of description in the interview. As was the case with entrepreneur AB, the negotiations JM is in fact referring to are a series of discussions and interpersonal relationships, occurring over a period of time, with numerous individuals in the respective companies. This further points to the need for future research to gain access longitudinally to both sides of the relationships under analysis. Indeed, this is perhaps the major lesson to be learnt from these case illustrations. In spite of the limitations imposed on the interpretation of the situation described in the above extract by only having JM's view, however, it has been shown that a number of useful points may be made concerning the relevance and applicability of the co-operation determinants, their relation to trust, and the combined effect of trust and co-operation threshold on the co-operative behaviour of the parties involved. It is, furthermore, reasonable to conclude that a combination of trust and co-operation determinants does appear to allow meaningful interpretation of the data - sufficient at least for their use in further study<sup>6</sup>.

Lastly, this example also illustrates the importance of accessing the individual entrepreneur in studies of small businesses, in order to understand the interpersonal relations that go towards

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<sup>6</sup> This finding is also supported by similar findings of earlier research (e.g.) Marsh (1995) and Dibben, Marsh and Scott (1996).

influencing small business growth and development. Were the unit of analysis restricted to the business level in this case, it would be impossible to understand how a new business with no track record in the industry could have managed to obtain such lucrative agreements with suppliers and customers. The above example, along with the others discussed in this chapter and those highlighted in the first stage study analysis given in the previous chapter, therefore provides a further illustration, of the way in which theories of trust and co-operation can provide access at the interpersonal level to, and render a meaningful explanation of, the social and political processes that are part of business relationships.

### **A MODEL OF SITUATIONAL TRUST AND CO-OPERATION**

As a result of the theoretical discussion of co-operation and trust, the development of co-operation criteria and their limited application to two first stage study cases, a number of observations regarding determinants of co-operation and their relation to interpersonal situational trust have been made. These are illustrated as Figure 2 below, and may be summarised as follows.

1. The co-operative behaviour of individuals appears to be determined by the combined effect of an individual's situational trust in another and the co-operation threshold which he has for the situation in question;
2. An individual's co-operation threshold is itself determined as a result of the combined effect of four co-operation criteria - utility, risk, importance and perceived competence. These criteria amount to subjective judgements regarding a situation by the individual, as a result of his assessment of that situation;
3. The type of trust each individual has of the other (i.e. Faith-Based Trust, Familiarity-Based Trust, a Reliance-Based Trust, or Confidence-Based Trust) in the situation concerned appears to exercise some

influence on his judgements regarding criteria for co-operation, and especially with regard to his judgement of risk<sup>7</sup>;

4. (From the above) A decision to engage in co-operative behaviour, or a decision not to co-operate, is a subjective decision.

This subjective decision results in one of two outcomes, following the combination of the decisions of each of the individuals in the relationship. These outcomes are either no co-operation, or co-operation between the two individuals. The relation between trust and co-operation threshold in any given situation is further explained, therefore, by the following six statements, where the number of individuals in the relationship is again limited to two, Y and Z, for clarity.

For individual Y

- i) The combination of situational trust and co-operation threshold leads to co-operative behaviour when the situational trust of the other is higher than the co-operation threshold for the situation;
- ii) The combination of situational trust and co-operation threshold leads to no co-operation when the situational trust is lower than the co-operation threshold for the situation.

For individual Z

- iii) The combination of situational trust and co-operation threshold leads to co-operative behaviour when the situational trust of the other is higher than the co-operation threshold for the situation;

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<sup>7</sup> This point is made with reference to the situational trust criteria, and in particular to the impact high trust types may have on an individual's willingness to engage in high risk situations (see Appendix 8 and footnotes 15 and 16 below).



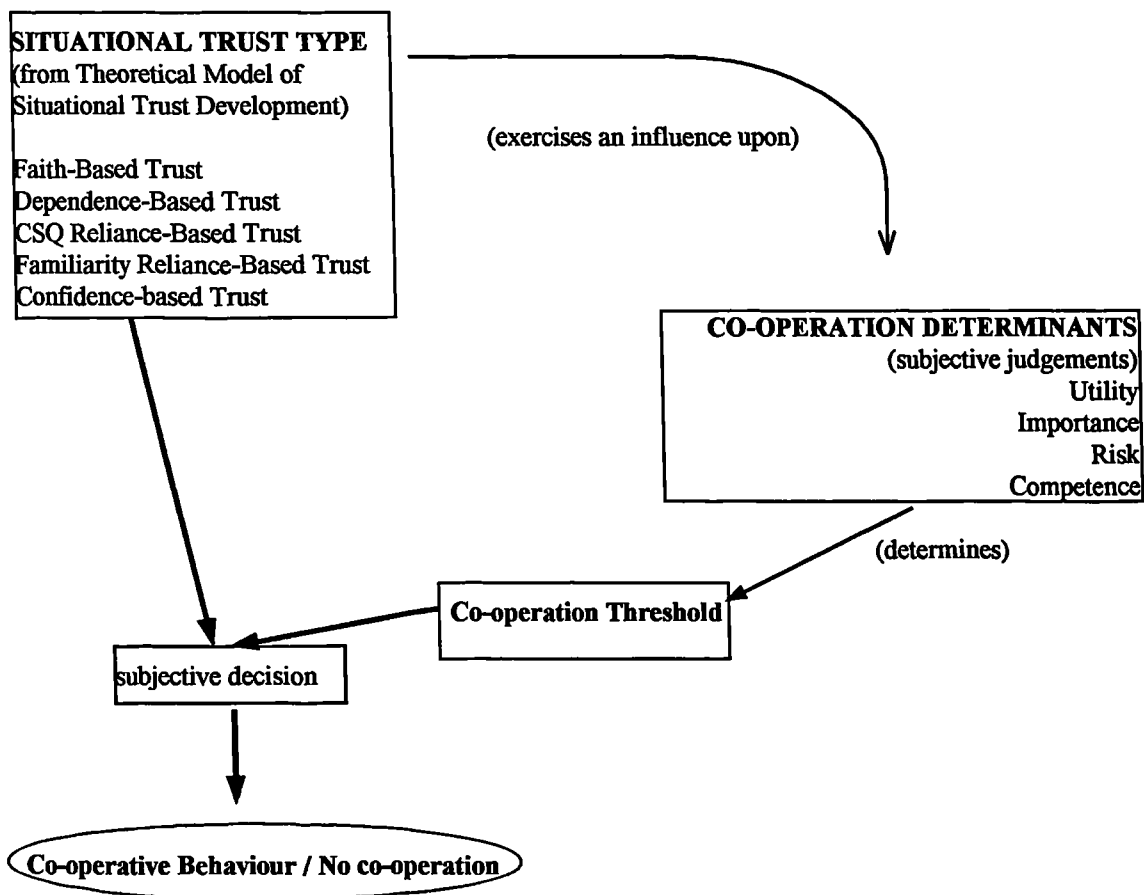
iv) The combination of situational trust and co-operation threshold leads to no co-operation when the situational trust is lower than the co-operation threshold for the situation.

Possible Outcomes

v) If Individual Y exhibits co-operative behaviour AND individual Z exhibits co-operative behaviour, then co-operation ensues.

vi) If either or both Individual Y and/or Z does not wish to co-operate, co-operation between the two individuals will not occur.

**Figure 2. A Model of Co-operation: The relationship between the Theoretical Model of Situational Trust Development and Determinants of Co-operation**



## IMPLICATIONS FOR TRUST THEORY

A number of issues arise from this discussion of co-operation and trust, regarding the overriding importance of trust in business relationships, even to the exclusion of co-operation. First, in order for co-operation to occur, trust must be present. This is because, for co-operation to occur, an individual's co-operation threshold for the situation in question must be overcome - by his trust of the other party. Second, it is possible to have trust in the other party, but not be willing to co-operate with him. This is because the trust the individual has in the other is not sufficient to overcome the co-operation threshold imposed by that individual for the situation under consideration. Since all relationships have developed within them some degree of situational trust (even if it is, for example, Dependence-Based derived Faith-Based Trust), this adds weight to the suggestion at the beginning of the chapter that, strictly speaking, it is incorrect to state that an individual does *not trust* another party. Rather, his trust is insufficient for him to co-operate with that other party in the situation concerned.

Third, the higher the co-operation threshold, the higher the trust required. In most instances, a high co-operation threshold will have been brought about by what the individual regards as a lack of necessary information about a situation; the less explicit knowledge the individual has, the more he has to trust the other individual before he will co-operate. An implication of this is that it may be easier in the short term, rather than attempting to increase trust directly, for an individual to reduce another's co-operation threshold, by furnishing him with more (positive) information about his own competence and the prospective importance or utility of the situation, thereby reducing the need for the other individual to have a high level of trust in him in order to co-operate in the particular situation. This is a further indication, therefore, that trust may be construed as a form of tacit knowledge 'invoked' by the trusting individual in order to overcome a relative lack of explicit knowledge about a situation, and thereby reduce the complexity of that situation (see Chapter I): The less explicit knowledge about a situation is available (leading to a high co-operation threshold), the greater the tacit knowledge (i.e. trust of the other individual) required for co-operative behaviour.

## **CONCLUSIONS AND IMPLICATIONS FOR FURTHER RESEARCH**

This chapter has attempted to show that models of trust and co-operation can provide a legitimate means of unpacking, analysing and interpreting some of the complexities of interpersonal interaction in the small business setting, thereby enabling a deeper understanding of the way in which interpersonal trust and co-operation may be seen to affect decision making and business development. It has related a model of co-operation to a series of cases taken from the first stage study, and drawn a number of implications for trust theory from the subsequent analysis. Of these, perhaps the most important is that, in spite of the importance of co-operation in determining the development of the small business, this can only take place as a result of sufficient trust existing between the individuals in the relationship.

As a result of the theoretical developments discussed in this chapter, therefore, it may be seen that a number of further theoretical insights into the complexities of the trust process have been provided, over and above that previously possible. Two implications arise from the discussion, in terms of 1) a further reaffirmation of the importance of interpersonal trust in interpersonal relationships, and 2) the ability to usefully identify and explore some of the more complex influences on trust and the influences of trust in field research. With this in mind, and in terms of further research, the importance of long-term qualitative studies of trusting relations is now most apparent, since such studies would enable changes in interpersonal trust on the part of each of the individuals in the relationships encountered to be tracked and examined in greater detail: It is only with the use of such approaches aimed at in depth explorations of the processes of trust development that a more complete understanding of trust and its impact on individuals, on decisions and on business development in the small business may be gained. Given these findings, the next chapter, Chapter VI, engages in a further piece of research, aimed at providing an illustration of the role and impact of trust in the small business setting, in the form of a longitudinal participant observation study of a management consultancy business.

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## Chapter VI

### *The Second Stage Study*

*Only perception gives knowledge of things.*

Roy Bhaskar (1975)

The two previous chapters presented the first of three separate, yet related, field studies exploring the nature and extent of trusting relations in the small business, and explored a number of the theoretical implications arising from the findings of that study. The major findings of the study were that, of the five trust types described in the Theoretical Model of Situational Trust Development proposed, Confidence-Based Trust and CSQ Reliance-Based Trust appeared to be most important with regard to their relative impact on small business development, and that there appeared to be a close link between the type of trust present and the propensity for co-operation. In the light of these findings, a number of additions were made to the model to account for co-operation, and an application of process theory was made in order to provide a detailed theoretical description of the development of interpersonal trust and co-operative behaviour. As was discussed in Chapter I, trust development in the small business setting is noted for the peculiarity that "the entrepreneur needs to send different messages" in order to win the trust of each stakeholder group (Low and Srivatsan, 1995:71). The pattern of trust development is further complicated by the problem that an overly enthusiastic message to one group will not be credible, because the individuals concerned will be aware of at least some of the conflicting requirements of others with whom the entrepreneur is having to interact to run the business (ibid). Thus, the entrepreneur must manage a set of relationships such that a positive impression is left regarding the chances of success of the venture as a whole (ibid:73). For stakeholders to believe the entrepreneur, it is thus argued that they must believe not his absolute authenticity - for he cannot be

authentic with all parties - but his performance and his ability to play the various stakeholders off against each other to the ultimate benefit of all concerned (ibid:71).

The general purpose of the research reported here, therefore, is to build on the findings of the first stage study and the subsequent theoretical additions, as well as Low and Srivatsan's arguments regarding trust development in the small business setting. While the first stage study broadly mapped out the frequency of occurrence of different types of trusting relations in the small business, and answered the first six of the fifteen research questions proposed as the focus of study, it failed to access the trust development process sufficiently to enable an exploration of the way in which trust might develop in a small business over time, or of the way in which trust development might affect business development. The chapter first presents the specific aims of the research in the form of a number of research questions and propositions regarding the nature of trust development and the interplay between interpersonal trust, co-operation and small business development. It then discusses the research approach utilised in the study, explaining the rationale for the selection of participant observation as a research instrument, and gives a basic description of the study and the company involved. This is followed by a discussion of the advantages and disadvantages of the approach, with illustration from field notes regarding the benefits and difficulties of the approach taken during the course of the research. The tension between the advantages and the disadvantages of the approach is illustrated by the use of these same notes to also indicate the applicability of the trust and co-operation theories discussed, with regard to the relationship built up during the course of the study between the participant observer and other members of the company. The chapter next examines a series of cases taken from the study to provide illustrative explorations of the main issues raised by the research questions, before briefly comparing the results with those of the first stage study. In the light of the findings from the study, the chapter concludes with a discussion of the applicability and effectiveness of participant observation in entrepreneurship, management and organization research, and suggests a number of implications for further research.

## **RESEARCH AIMS**

### *Researchable Questions*

Following the findings of the first stage study research, there remain unanswered nine research questions of the fifteen set out at the end of Chapter III, which form the main purpose and structuring element of the second stage study research. These are listed as follows.

Q1. How does interpersonal trust develop, and what behaviour affects that development?

Q2. How does co-operation affect what types of situational trust?

Q3. What types of situational trust lead to trust of others in:

- (a) Strategic decision making?
- (b) Operational decision making?

Q4. How do what types of situational trust affect co-operation with regard to:

- (a) Strategic decision making?
- (b) Operational decision making?

Q5 (a). How do crises affect trust development?

(b). How does trust affect crisis development and resolution?

Q6 (a). How does co-operation affect trust decline?

(b). How does trust decline affect co-operation?



Q7 (a). What affect does trust decline have on small business (a) growth (b) failure?

(b). What affect do increases in trust have on small business (a) growth (b) failure?

Q8. What affect do different perceptions of time have on (a) situational trust (b) co-operation?

Q9. How accurate is the theoretical trust typology at representing the development and decline of trust in the small business setting?

#### *Researchable Propositions*

In the light of the theoretical developments discussed in previous chapter, concerning the relationship between trust and co-operation thresholds, and further to Low and Srivatsen's theoretical consideration of trust development between the entrepreneur and stakeholders to the business discussed above, the following five researchable propositions are also presented as a further means of structuring the research. This is in particular regard to any attempt at coming to a meaningful 'answer' to research question 1 above, concerning the nature of trust development and its prerequisite behaviour.

P1: the greater the perception of utility, the greater the possibility of trusting, co-operative behaviour.

P2: the greater the perception of importance, the greater the possibility of trusting, co-operative behaviour.

P3: the greater the perception of risk, the lesser the possibility of trusting, co-operative behaviour<sup>1</sup>.

P4: the greater the perception of competence, the greater the possibility of trusting, co-operative behaviour.

P5: the forming of trusting relationships with stakeholders, be it trust formed over a period of time or Faith-Based Trust, will consequently depend on an individual's ability to: (i) diagnose and signal understanding of a stakeholder's preferences and concerns; (ii) determine and signal understanding of the co-operation threshold and trust level required to secure a stakeholder's commitment; (iii) signal trustworthiness and competence through a willingness to share information and a willingness to commit support to the project concerned; (iv) demonstrate skill at detecting trust and co-operation criteria (such as perceived competence) by looking for corroborating information.

## **RESEARCH APPROACH<sup>2</sup>**

In the light of the above discussions of trust theory and research aims, this section will concern itself with the selection and description of an appropriate methodology for the study, prior to giving a description of the study setting itself. The requirements of the second stage study were such that it needed to be able to access more closely the situations identified as eliciting trusting and co-operative behaviour, in order to enable a deeper exploration of the phenomena. Such detailed exploration also needed to take into account both the processual nature of the phenomena under investigation and its subjective nature. It would therefore have to both attempt to gain access to the appropriate situations in the small business setting over a period of time (in order to account for the process), and also attempt to focus on the dialogues, exchanges, personal opinions and explications of the individuals themselves in the relationships under study (in order to account for the subjective nature of the phenomena).

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<sup>1</sup> For a discussion of factors underlying change in risk perception, see (eg) Moesel et al (1996).

<sup>2</sup> Much of that contained in the following two sections was presented as part of a paper entitled "The Effectiveness of Participant Observation Studies in the Research of Processual Phenomena Affecting Management and Organizations: Findings from the Study of Interpersonal Trust Relations in a Scottish SME" at the Aberdeen Management Research Symposium 'Methodological Problems and Solutions in the Study of Management and Organizations', University of Aberdeen, March 1997.

## *Rationale*

With regard to the need to access a process (see Chapters III and V), this necessitated an approach which would enable the observation of developing qualities by taking a 'film'. This is in contrast to a quantitative approach which, by its implicit focus on the measurement of discrete (if related) outcomes through its focus on quantities, is akin to the taking of photographs. Such an approach was deemed inappropriate because, regardless of the number of 'photographs' taken, the process by which movement occurs may only be interpreted by study of successive photographs; it cannot be observed (cf. Bryman, 1989:140; see also Chapter II). The selection of a qualitative approach, however, brought with it the question of which qualitative approach would be best suited to accessing personal exchanges and relationships over time. Three main types of qualitative research have been identified by Bryman as unstructured and semi-structured formal interviewing, the analysis of documents and participant observation (ibid:142). With regard to formal interviewing, this was utilised in the first stage study and led to the identification of a need to achieve a deeper access to the processes of trust and co-operative behaviour development which it itself had failed to provide (see Chapters IV and V; and above). Such an approach was therefore discounted. With regard to the analysis of documents, the need to access an intangible process as it developed between individuals across a range of situations made such an approach impracticable, given the aims of the study. The approach taken was therefore ethnographic, where the author adopted the social role of 'participant as observer' for the purposes of data collection (Hammersley and Atkinson, 1995:104).

Participant observation offers a number of advantages as a methodology. Jorgensen (1990:12) notes that it is "especially appropriate to exploratory studies, descriptive studies, and studies aimed at testing and generating theoretical interpretations" (ibid:13; also Yin, 1994:4). Friedrichs (1975:85) states that "participant observation is suitable for research into complex fields of activity with numerous situations and persons, or as a method of exploration to discover relevant variables of the behaviour of agents... [in relation either to themselves], or in their relation to an organisation." In addition, longitudinal field methods make one's attempts to understand a change in one element or another

element easier, and "are especially powerful in that they provide information about variation over time, as well as permitting one to examine the degree of mutual dependence between two or more variables" (Williams and Rodsakoff, 1989:248). Thus, participant observation is "ideally suited for examining reciprocal relationships" between individual members (ibid), and therefore provides the best approach for a study of the development of trust relations.

A number of disadvantages have nevertheless also been noted of participant observation studies. These include problems of: suitable sample selection; maintaining the relationship between researcher and researched; changes in attitude of business members towards the study and towards their everyday work as a result of the presence of the observer (which may all be collated under the term reflexivity); the lack of standardised methods; the potential inaccuracy of unstructured and uncontrolled observation; selective perception on the part of the researcher; and the researcher losing 'objectivity' as he becomes absorbed in the role he is playing within the business (Williams and Rodsakoff, 1989:249, also Hammersley and Atkinson, 1995:227). There is, moreover, the lingering problem of generalisability, which faces all small scale case study approaches. With regard to the lack of standardised methods and the acknowledged inaccuracy of unstructured and uncontrolled observation, these are problems which apply more specifically to participant observation studies which also intend a statistical analysis of findings (Friedrichs, 1975:5). This was not the case in this study which intended an illustrative exploration of what are dynamic, qualitative and complex inter-related influences.

#### *Principles governing the reporting of research findings*

With regard to the issues of reflexivity, the relationship between observer and observed, the role of the observer in the social environment which he is attempting to study, and the loss of 'objectivity', these remain at the centre of debate in anthropology (for example see Lett, 1991 and Francis, 1994a) and have even been argued as part of the "cause of its current malaise" (Moore, 1994). A discussion of the current state of anthropology is beyond the scope of this work, however<sup>3</sup>. Suffice to say, in addition to

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<sup>3</sup> See for example Rubel and Rosman (1994).

the discussion regarding the subjectivity of all research in Chapter II, that an ethnographic approach allows the "coming together of the 'everyday' thinking of the 'subjects' of the research and the body of academic knowledge to which the researcher has access" (Watson, 1994:6). The practice of ethnography for the purposes of the study of organizations has been summarised by Rosen as a means by which the "ethnographer tries to learn the subjects' rules for organizational life, to interact with them for a frequency and duration of time 'sufficient' to understand how and why they construct their social world as it is, and to explain it to others (1991:15. In Watson, 1994:6). Thus ethnography in organizations is "a means of generalising about *processes* managers get involved in" (ibid:7, original emphasis), where the generalisation comes from the theoretical developments enabled from the study, rather than empirically (it being possible only to provide indicative illustration, rather than empirical generalisation, from one case study company. See also Yin, 1994).

It may be seen that, above all, ethnographic research is "an interpretive endeavour...[providing] not only substantive information but perspectives on that information" (Peacock, 1986:99). It therefore also represents the author's struggle to "elucidate a perspective on life through his portrayal of [what he found] as he experienced and analysed it" (ibid:100). Any selective perception and lack of 'objectivity' with regard to the nature and outcome of the situations observed on the part of the author are, therefore, also a subject of study, since they naturally contribute to the interpersonal relations being observed. The inherently subjective nature of ethnographic research is clearly apparent and I therefore intend, in part, to here follow Watson's lead in allowing the field notes to speak for themselves as far as possible, for much of the meaningful analysis was done at the time of the initial recording, while the events were still fresh in the mind; "I make no claim to be a neutral reporter" (Watson, 1994:7) but allow the reader to judge something in the events and accounts I am writing about. Thus, what follows is not strictly speaking an account of 'participant observation', but of 'observation of participation'. This is "where ethnographers both experience and observe their own and others co-participation within the ethnographic encounter" - an approach which has seen increasing use and acceptance (Tedlock, 1991; see also Barth, 1995). It may also be seen that the approach I adopt is akin to an interpretive approach, rather than a positivist/scientific one. This is in spite of the fact that my attempt to examine the

applicability of a theory and thereby provide an explanation of what I observe may be argued to be closer to the former (Lett, 1991), since I make no attempt to provide a definitive description or explanation but, rather, *a* description and (it follows) *an* explanation. This is in keeping with the exploratory nature of the research (Peacock, 1986:110), as well as the wider philosophical position of thesis set out in Chapter II. I have laboured the point, because the recent nature of the 'validity debate' within anthropology has required it<sup>4</sup>.

### *Description of the research setting*

Having discussed the research approach used for the second stage study, the rest of this section concerns itself with the study's research setting. The Study Company (hereafter referred to as SC) was a management consultancy company based in Scotland, specialising in employee counselling and other activities relating to the support of its customers' Personnel Departments. The majority of its customers were multinational blue chip companies based in Scotland, operating in both service and manufacturing industries. SC was a small business which had recently undergone expansion to new offices and had taken on two extra staff in anticipation of new business. The company was selected for two reasons. First, the nature of its business was such that, more than many others, it relied on the development of effective interpersonal relationships, both within the company and with the various members of its customer companies with whom it dealt. It was therefore felt to be a small business in which trust would be most prevalent. Second, the nature of the company, comprising a very flat unhierarchical structure was felt not only to increase the need for trust still further (due to a lack of bureaucratic systems and established posts), but also to be representative of an increasingly large number of fast growing small businesses<sup>5</sup>. As such, the company was deemed most useful as an illustrative example, since the likelihood of it presenting with a large proportion of the many trust issues identified in the first stage study was felt to be very high.

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<sup>4</sup> This debate is often ill tempered. See for example the discussion between Francis (1994a, 1994b) and Watson and Goulet (1994), where the combatants argue over the validity of the use of social construction as a meaningful interpretive framework. For a related discussion of the subjective nature of socially constructed 'objective' systems in society, see also Geertz (1993:184).

<sup>5</sup> I am grateful to Richard Harrison for pointing this out.

With this in mind, it was agreed between myself and the Proprietor (hereafter referred to as P) that the study would last initially for one month, with the option to return for a further month if necessary. The 'participant' part of the role would be to act as a research assistant, looking at business clients that had not replied to 'fliers' and asking why this was so, searching for possible new clients, and monitoring the effectiveness of the company in terms of its approach to clients. As a result of the requirements of my participant role, it was also agreed that hours spent in the company would be flexible, although in practice it turned out that the wealth of material available, combined with my increasing involvement in the company, meant that I was in the company almost every day for on average six hours, writing field notes up both in the company (when circumstances permitted) and at home on the evening of the day in question. In return for the assistance I rendered the company, I was allowed access to all meetings, both within the business and between the business and its clients, so long as the clients agreed. In most cases agreement was forthcoming, and the trust relationships observed in those meetings are considered further below. Where agreement was not forthcoming, this was because the subject of the meeting concerned was confidential, and (I later found out) in all cases involved the clients' intentions to lay employees off in the future (ironically, such scenarios were good for SC as this meant more counselling business). A number of strategically important issues were being faced by the company during the period of the study such as business development (including intended Investors In People [IIP] accreditation), customer care - in terms of the attitude of certain key staff to customer companies and clients (i.e. employees of those customer companies referred to SC for counselling), the role of the owner manager and willingness to delegate important decision making, tensions between family and work demands, and a predominant reliance on part time and contracted in staff - of which the majority were female middle-aged returners to the work place.

#### **VALIDATION: TRUST, LEGITIMACY AND THE PARTICIPANT OBSERVER**

The previous sections have discussed the selection of an appropriate methodology for the investigation being undertaken, explored some of the implications of the approach, and described the

company and the nature of my access to it. It follows that this section will now use the field notes collected during the study to attempt first to illustrate some of the difficulties associated with participant observation and then discuss the ways in which, in spite of these difficulties, the study generated meaningful data for an exploration of the development of trust and co-operative behaviour. This will then enable an evaluation of the effectiveness of the research approach for the study of complex social processes, prior to a more detailed study of the role and development of trust in different scenarios encountered during the study. Study of the relationship between the observer and the observed as meaningful data for analysis have been described by Peacock as providing a source of "important ethnographic knowledge", for "what the ethnographer learns [from such study] is not only the facts that the informant might recite, but also the relationship with that informant" (1986:107). He goes on to note that "one aspect of that relationship is the trust between ethnographer and informant" (ibid). It seems appropriate, therefore, to take as a case study the nature and effect of the developing trust relationships between the author and the other members of the study company, its customers and suppliers. This will both enable an investigation into the effectiveness of participant observation studies at enabling sufficient access to interpersonal relationships for an exploration of interpersonal trust, and also enable a preliminary investigation into the trust relationships encountered.

An illustration of the tensions of the participant observer's position within the study setting may be seen in the following extract from the field notes of the second day with the company<sup>6</sup>.

27) 'P is beginning to take up my suggestions and is putting them forward at meetings, which is good for my credibility and effectiveness within/as part of the 'team'. It also indicates the trust that has developed between P and myself. My point that it was probably necessary to stop concentrating on the establishment of action points (static end points), and start concentrating on the achievement of action (movement) was immediately taken up in today's meeting. But this leaves the question regarding how I am influencing the actions/behaviour of those in the company' (02/10/96).

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<sup>6</sup> The numbering of extracts follows on from the previous chapter. This is in order that extracts may be traced reliably by number throughout their use in the research.



Thus, it may be seen that within twenty four hours of my being with the company, P has established my place as a potentially worthy(!) addition to the team and indicated her trust in my abilities by using my suggestions, with the result that other members are adopting them. But the negative aspect of this otherwise positive scenario is that my presence is immediately having an affect on the behaviour of individuals in the company and, consequently, the company's development, so that the potential for 'uncontaminated' data has already been compromised. It follows that the distinction between covert and overt participant observation approaches has arguably been blurred, therefore, since while covertly observing trust, my participation in the company and its day to day dealings is inescapably overt.

In the light of this illustration, and with reference to the problems of participant observation and the need for the building of a workable relationship between the observer and observed noted above, three sets of issues may be isolated for analysis of the effectiveness of the research approach. These may be summarised as i) the need for observer credibility as participant within the company in order for the observation to be effective, ii) the difficulties associated with one's presence impacting on business decisions, and iii) the importance of trust development between individuals in the business and the participant observer. Each of these issues are now examined in more detail.

#### *Effectiveness in role as a generator of legitimacy*

The link between legitimacy and effectiveness of the participant observer in the role assigned within the company may be seen in the following extract, a conversation with P regarding the use of 'confidential' comments from questionnaires, filled in by a customer's employees, in a forthcoming meeting with that customer company's personnel manager<sup>7</sup>.

28) P. Mark, you said we shouldn't use people's comments from these questionnaires in reports to the company.

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<sup>7</sup> See also extracts 32 and 34 below, which describe the meeting in question.

MD. It's not that you shouldn't use them, it's that you mustn't use any which will identify the person concerned, otherwise that would cause problems for the employee, and then for us. You know, because of the resulting reputation built up of a lack of confidentiality, which is a big enough problem without making things worse. [Such action would ruin SC's business, and not actually help the customer company either.]

P. Right. What about altering them? This one for example, when the person has said "the counsellor has turned all my negative feelings into positive ones", and I know that a counsellor would not do that. They would help the person turn negative into positive - I mean my counsellors would string me up if they heard me saying they had turned negatives into positives! [laughs]

MD. But it gives a good impression of the end result of the service, which is what the company is looking for, and if that's how the person feels, then that's how the person feels. And ethically you shouldn't be altering things to mean something different.

P. Hmm. It's just a professional thing from the counselling point of view, but you're right (17/10/96).

It may be seen in this example that the suggestion of a course of action has led to a change of plan by P regarding the use of material for the forthcoming meeting. The fact that P has asked for an opinion is indicative of an already-established level of credibility, while her change of opinion in spite of her professional counselling knowledge illustrates how, again, the participant observer's presence can affect the situation, in this case potentially to the benefit of the company and its customer relations. The end result is an impression of capability at performing a role within the business (in this case giving workable advice on a sensitive issue), further establishing legitimacy and value to the company which, in

turn, increased both my acceptance within the company and, consequently, the chances of obtaining useful research material.

*Legitimacy influencing data and causing difficulties in data gathering*

With regard to the problem of legitimacy causing difficulties in gathering data unaffected by the presence of the participant observer, this may be seen in the following extract from field notes, again concerning the relationship that was inevitably developing between myself and P.

- 29) 'I am acting as a sounding board and counsellor to P herself regarding the way the business should develop, what the business is and how to develop people's roles in it to the best effect. There is no way of avoiding this, as it is part of the trust relationship that I am developing with P at the moment. And I can't get away from that as its vital for ensuring the access to customers that I need for the study of company-customer relations' (07/10/96).

This example indicates an increasing awareness, within the first full week of being in the company, that a role as a 'sounding board' for P, while potentially causing difficulties and in part consequently undesirable, was also imperative for enabling future access to situations that potentially harboured very important trust relations worthy of study.

One of the problems associated with the development of a close relationship with P was that it tended to compromise my relationships with other members of the company, restricting the usefulness of the interactions with them. This is illustrated by the following conversation and the attached field notes, which I initiated with J (a member of the company whose job role was being changed by P) during a coffee break in order to see whether J would be forthcoming about changes in her role in the business<sup>8</sup>.

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<sup>8</sup> In the event, this problem did not greatly prevent my access to both sides of the story with regard to the role change issue - see extracts 44-46 below.

30) MD. How do you think the business is going?"

J. [Pause] Well, it's going well. We've got a few new contracts. But we still need to build up new business, which is our strategic weak point.

'This is an illustration of J's unwillingness to talk about her role in the business. I am also not in a position to probe deeper, as she will know for sure that P has been talking to me'

(17/10/96).

The problem of role conflict, especially with regard to the establishment of a meaningful relationship with J, continued throughout the period the study, and led me to make the following note a week later.

31) 'Working closely with P has again led to conflict with J. I was asked by P to rewrite a contractual letter that J had written to a customer asking for a rise in the rate of pay for the contract. Except that J had written it as a demand, rather than a request, with attendant implications re. P's perception of J's competence in this regard.

[there is then a self reference to the notes of the day before]

'I was today approached by J, who was rather hostile, and questioned me about my alterations, which I explained and we reached a compromise, whereby I accepted one of her changes.

'This whole thing illustrates one of the difficulties of being a participant observer, where one finds oneself in the counsel of one party and then has to behave as if not knowing/being with the others. Especially where (as in this case) this is further complicated when that counsel is known of by the others. And again, this is further complicated when (again as in this case)

the only route to really meaningful data is through the establishment of a close relationship with P. I cannot frankly see a way out of it.' (25/10/96).

In these two examples, the difficulties of becoming enmeshed in the politics of an organization as a participant observer are readily apparent. The deteriorating relationship between P and J, coupled with the developing relationship between P and myself (as indicative of the credibility already established between us) had led to a tension between J and myself that needed reducing for the best interests of all concerned. Again, the decision to pursue the relationship with P is maintained, because of the benefits it offered, but there is no question as to the difficulty this political situation presented in terms of gathering unbiased views of the relationship between P and J; it was simply not possible to get enough information from J to provide a wholly balanced account.

The need to maintain and develop existing relationships, and the problems associated with the presence of the participant observer affecting the behaviour of other members of the company, especially in times of potentially impending crisis, are illustrated in the following extract from notes for the day on which I had first been allowed access to one of SC's customers. This was to be in the form of a meeting, between P, J, myself and the Personnel Manager, E, of an international manufacturing company, CW. The meeting was regarding SC's future involvement with the company and the effectiveness of the services which it was providing to CW. E had sent word to the reception that he would be late,

32) '... So P, J and myself went to the restaurant and got ourselves mugs of coffee. The restaurant was enormously spacious, modern and brightly lit - recent refit? P came back from getting the coffee to ask if any of us had change. So I gave her my money purse. The reaction was one of surprise, as I guessed it would be. It was an intentional sign from me that I trusted her and had established a friendship with her. I genuinely feel this to be true. But it was also intended to allay any fears P might have had regarding where my loyalties lay prior to the meeting. And it was taken in exactly the way I intended: Touching my shoulder, she said "Oh right? Thanks Mark. That's a sign that you really do trust me" (22/10/96).

This is an example of an occasion where it was necessary to actively attempt to improve the trust between myself and other members of the company. Such strategic trust building on my part was something that I had not expected. As this example has shown, however, its value and importance, from the point of view of enabling effective participant observation was significant.

*Legitimacy generating trust between observer and observed*

In spite of the various problems associated with legitimacy, in terms of it making the collection of uncontaminated and unbiased data difficult, the need to establish a trusting relationship with key actors is illustrated in the following extract.

- 33) 'The relationship between P and myself is a classic trust development (!). The relationship was originally built on Faith-Based Trust through CH [a former member of staff at the university] putting us in touch, moved through Dependence-Based Trust as we negotiated what each could give and what each wanted, and has thence progressed into a familiarity-based trust in certain situations (i.e. where counselling issues are involved), and into CSQ where strategic/ marketing/company issues are concerned. The nett result of this is a good, open and easy working relationship, in which P asks to make sure I am getting what I want, and I tell her that I am (because I am) but not what' (07/10/96).

It may be seen in this example that the development of an effective working relationship with P was important for the success of the study itself, for it enabled both sides to ensure each was getting what s/he expected, as well as providing a useful additional relationship to use for the study of trust development within the business. While it was made apparent from the outset that the subject of study was trust<sup>9</sup>, this did not compromise the accuracy of the findings since I purposely did not at any time

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<sup>9</sup> The reason for this was that the importance of trust to the development of effective relationships both within the company and between it and its customers and suppliers was well acknowledged by the members of the company; it would have been difficult - if not impossible - to keep the subject of study a

during the study explain the theoretical insight into the phenomena which I brought to it. Thus, the members of the company were not furnished with any knowledge of trust other than their own working knowledge, so preventing them from in any way adjusting their behaviour to 'fit'. The potential danger of such theoretical knowledge compromising findings was explained to all members of the company.

The importance of establishing legitimacy for the purpose of developing effective trusting relations in the business setting may also be seen in the following extract from field notes, which describes the meeting between CW's Personnel Manager, E, myself, P and J, mentioned also in the above discussion regarding the strategic maintenance of trust relationships.

34) The conversation turned, in his office [in order to ensure confidentiality - interesting point in itself - from the other workforce in the restaurant], to the issue of absence rate correlation with use of S's service. I had been effectively left out of the discussion up until this point so, again as an attempt to develop trust, I offered to attempt such a correlation (without making any promises because, as I said to E, actually the data available is very poor), and give it to E as a management report. This immediately resulted in my being involved in the conversation, having voluntarily made a useful contribution to it and shown myself willing to be put out for E and P's sake. P's reaction was one of surprise:

P. Are you sure Mark? I'm not asking you to do it.

E. But actually it would be very helpful if you could. I really need some figures of some sort.

The benefits were fourfold; I would get more useful data, P increased her credibility with E (as did I), E will get some useful comparisons, and it was a means of indicating co-operative behaviour to CW' (22/10/96).

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secret given this open awareness, which existed prior to my arrival. Neither would such secrecy have helped the development of the open relationships necessary for effective participant observation.

In this example, the offer of worthwhile co-operative behaviour on my part (as perceived by P and E) in the form of a management report addressing issues relating directly to the issue at hand enabled a significant step forward to be made regarding my relationship with E. As such, it is an example of a Faith-Based Trust relationship between myself and E (as established through P as co-ordinator) initially not overcoming a relatively high co-operation threshold imposed by E - presumably due to the sensitivity of the situation and the risks involved in allowing a stranger to take anything more than a passive part in the situation. The offer to write the report (given as Appendix 6) however, established a sense of perceived competence on the part of E and a higher importance for involving me in the discussion - since there is now a potential non-economic profit to be gained by having a meaningful piece of research done - thereby lowering E's co-operation threshold. Legitimacy was further enhanced by the fact that both were aware that my voluntary willingness to co-operate was in spite of the inevitable short term loss in terms of time spent researching and writing the report (however brief) on my part. This is not to say that I would not gain from the process, both directly and indirectly, for admittedly this was my primary purpose<sup>10</sup>. In addition P's credibility with E was enhanced because she had brought someone along in addition to herself and J who might provide something useful. Thus, it may be seen that successful attempts at building legitimacy enabled greater access to a set of trusting co-operative relationships than might otherwise have been possible.

#### *General illustrations of trust and co-operative behaviour*

As may be gathered from the explanation given of the interactions described in transcript 34 above, the above extracts also give some insight into the way in which trust and co-operative behaviour may be seen to operate. This is in addition to illustrating both the difficulties associated with participant observation studies which might serve to compromise their validity, and the importance of generating positive relationships in the study setting for meaningful research to be carried out. For example, it may be seen that the above transcript (transcript 33) also illustrates the way in which the theoretical model may be used to understand the development of relationships in the small business. The value of the

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<sup>10</sup> As such, this is another example of strategic trust building on my part.



participant observation approach in providing access to developing trust relationships may also be seen in transcripts 28, 29, 30 and 31 which, as well as illustrating the difficulties associated with participant observation, also provide useful data for a preliminary exploration of the role and effect of trust in the small business, as follows.

To take each in turn, transcript 28 provides an illustration of P trusting the judgement of the participant observer on an important matter (i.e. the inclusion of sensitive but useful material in a report to a major customer). With reference to the trust criteria proposed in Chapter III, it may also be seen that an examination of the situation described in transcript 28 allows one to identify the type of trust concerned as CSQ Reliance-Based, since the issue under discussion is known and understood by both parties and they therefore share situation-specific knowledge. The effect of this level of trust between the two parties concerned on the company may also be seen, in that it results in P taking a decision that might have important consequences on the future of the business with the customer. Closer examination of this extract also reveals a second trusting relationship; that between P and her contracted counsellors which we may infer is also CSQ Reliance-Based (at least on the part of P), due to their shared professional knowledge and the ability of P to (jokingly) predict their behaviour. The potential impact of CSQ Reliance-Based Trust on business development may also be seen in transcript 29, where it has led to the role of acting as a sounding board for P regarding key business decisions. In contrast, the impact of insufficient trust on co-operation may be seen in transcript 30, where it is clear that J did not have sufficient trust (in the questioner) to make her willing to co-operate by talking openly about her role and how she saw it developing. The impact of lowered competence perception may be seen in transcript 31, where P is no longer willing to allow J to even re-write a letter to a customer, and a number of relationships are affected and decisions taken as a result, while the effect of increased perceived competence may be seen in transcript 34 as an indirect result of my (i.e. the author's, as participant observer) willingness to co-operate, reducing co-operation thresholds on the part of E, for the benefit of each of the individuals concerned. Lastly, these transcripts all provide indicative evidence of the accuracy of a number of the research propositions stated above. For example, transcript 34 illustrates the

probable efficacy of P2, P3 and P4, as well as that of a number of the requirements for trust development suggested in P5.

## **ANALYSIS: THE DEVELOPMENT AND ROLE OF TRUST AND CO-OPERATION IN THE SMALL BUSINESS<sup>11</sup>**

The previous sections have given an explanation of the research approach and illustrated its validity with examples from the second stage study material. This material was also generally illustrative of the workings of trust and co-operative behaviour, as well as some of the requirements of trust development, and it is therefore appropriate to now examine the second stage study data in more detail to attempt to unpack the workings of trust in the small business setting and thereby come to indicative answers to the ten research questions posed earlier. With this illustrative purpose in mind, this section now explores six cases taken from the participant observation study, to examine the role and effect of interpersonal trust and co-operation in trusting relationships between P, external stakeholders in SC and other members of SC, including myself the author as the participant observer (referred to as MD in both the transcripts and their analysis, for the sake of clarity). Rather than providing an exhaustive account of every trusting situation encountered during the course of the study, the cases selected are felt to be the most appropriately detailed and interesting illustrations from over 20,000 words of field notes, according to the research questions and propositions detailed above.

This section first examines a case of Faith-Based Trust as the first type of trust that might occur between two individuals entering into a business relationship following an introduction by a co-ordinating third party. In the light of the findings from this case, it then examines a case of interpersonal trust development, a case detailing the effect of crisis on trust, a case illustrating the effect of trust

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<sup>11</sup> Much of the work in this section concerning Faith-Based Trust and trust development was presented as part of a paper entitled "The Role of Trust in the Inter-Organizational Relations of a Small Firm: An Analytical Illustration" (with R.T. Harrison), which applied the case studies considered here to Lewicki and Bunker's three stage model of trust development (1996; see also Chapter 3), and was presented at the Seventh Global Entrepreneurship Research Conference, Montreal, June 1997. The discussions

decline on co-operation and business development, and cases concerned with the role of trust in strategic decision, and operational decision situations. The cases are each described and analysed with regard to the development of the various trusting co-operative relationships observed and, where appropriate, in terms of how they might provide evidence for the five propositions (P1, P2, P3, P4 and P5:i/ii/iii/iv) detailed above regarding the development of interpersonal trust and co-operation, before the chapter relates these findings to those of the first stage study and concludes with a discussion of future areas for research.

*Case 1: An Illustration of the Role of Faith-Based Trust*

The first case concerns a meeting with EC, an engineering company engaged in a range of engineering industries, including construction, mechanical and electrical engineering for both the public and private sector. The meeting was called to discuss the implementation of an employee counselling service at the head office, which employed 170 staff. The broad aims of the service had been agreed over a series of prior meetings between P and the Personnel Manager, M, who had first contacted SC six months beforehand to discuss the services offered and the problems he was having with rates of absenteeism. The finer details had still to be discussed, however, and this was the purpose of this meeting. P's main interest was to introduce M to the counsellor, C, who had agreed to take on the project and who would be responsible for the direct implementation of the service, and who came to the meeting straight from another counselling appointment. The meeting took place in M's office, and P introduced C pointing out C's experience and core competencies as a counsellor and listing previous customers with whom she had worked.

35) M. Well, that's fine. We need to think about how to promote you and get you involved so that people will quickly be comfortable coming to talk to you. Now my immediate boss has gone it's a lot easier because he didn't want the service - didn't think it was necessary. But it's jolly important, especially in a company like this. You know? Where most of the workforce are

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presented in the paper were derived from the analysis presented in this chapter, which is antecedent to them.

men and it's in a tough industry. But what we've got to get across is first that I am not in control of the service and second consequently that they are free to go.

C. Well, the networking that we set up in the first few weeks will go a long way to demystify it. To show that we are human.

M. I am trying to think what will happen. What do we do?

C. There would have to be an opportunity to see people and see what they are doing. To become part of the woodwork.

M. Well, I'll introduce you and you can have the freedom to wander around the place to build up some sort of relationship.

C. What about where I might be able to hold the counselling sessions?

M. In terms of... [pause] I've got a small room that's not in use... you can have whatever colours and things in the room you like and that we can come up with. Is that alright?

C. That's fine.

M.[to P] Are you willing to do some more [business counselling] cards to distribute [among the workforce]? I don't want to give you any more work than necessary, otherwise it'll be burdensome for you.

P. No that's okay. That's fine.

C. I think it would be useful for me to have some as well.

P. Right, I'll get some more done for next week.

M. Oh, that's a thought! [to C] Do you want to see the room I have in mind? [to P] Is that alright?

P. Yes of course. I don't need to come. It's between you and C.

[C and M leave] (29/20/96)

Analysis of this conversation reveals a number of different trusting co-operative relationships. There is the relationship between P and M, based on CSQ Reliance-Based Trust built up over a series of interactions, and the relationship between C and P, again based on Knowledge-Based trust built up over a series of interactions. There is also the relationship between M and his employees, which is Dependence-Based Trust due to the nature of his position and their apparent attitude towards him as shown by his concern that the service will not be utilised because of their fears that he will be checking up on them. The relationship between M and C is one in which Faith-Based Trust is developed, with P as the co-ordinating party and, finally, there is the relationship yet to be established (but of central concern to all parties) between C and the employees of EC.

With regard to the relationship between M and C, the importance of this relationship to the successful delivery of the service provided by SC was revealed by P on the way to the meeting (P2):

36) P. I know C's the right counsellor to put in here because she has dealt with big businesses and macho environments before quite successfully. But it'll all really hinge on how well C and M get on. If they don't she may not get the access she'll need and it'll never work because people won't even know she's there, and then there'll be the issue of whether we keep the business.

We have that problem at the moment with another company and the counsellor's been in there one morning a week for six months now and and not had anybody come to see her. And I am having a meeting next week with the Personnel Director of that company to discuss what's to be done and whether there is any point in continuing (29/10/96).

Here we see P's decision to use C with the company - her co-operative behaviour with regard to C - is based on an evaluation of her competence in such situations (P4). This is in spite of the risk involved of the relationship between M and C not working and jeopardising any future business between SC and EC (P3). P is aware of D's requirements with regard to C ( P5/i), and hence introduces them on the basis of C's competence in such situations as M (and P) thinks she will encounter at EC (P3, P5:ii). Thus, this extract illustrates first and foremost the importance of the role of the co-ordinator in the generation of Faith-Based Trust in interpersonal interactions, since P is responsible for the selection of the appropriate individual for the situation and also for a useful introduction between the two parties (C and M), where the relationship that might be developed between them is not in the first instance contingent on who C is as an individual, but rather her relationship with P and P's relationship with D.

The reaction of M to C's introduction indicates he is happy to enter into a trusting co-operative relationship - at least initially - although whether this is more as a result of his perceived competence of C or his perception of both the importance of getting the counselling service running and the potential value of successful implementation in less absenteeism is unclear (P1, P4). Certainly the value which he places on the service's success is a key factor in his willingness to co-operate (P2). Throughout the meeting he is constantly seeking corroboration of C's knowledge (and hence competence), asking her what needs to be done and how she thinks the situation will develop (P5:iv). Her answers indicate an understanding of the situation and its requirements, adding to the impression of competence on M's part (P4, P5/i). Yet M also signals his openness and willingness to co-operate with C in developing the service by (for example) introducing her to the employees and giving her the freedom to wander around by herself and get to know people (P5:iii). For C's part, she also seeks for herself to establish M's competence in the situation, by asking about where she might run the counselling sessions, even though

she has been told by P beforehand that M is keen to establish the service (P5:iv, P4). By not only confirming that he has set up a room for the purpose, but also that he is happy to co-operate with C by painting the room in whatever colour she wishes that is available, M signals his willingness to commit support to the project (P5:iii, P4) and this serves to further the Faith-Based Trust and Co-operation that is forming between them, as indicated by C's response: "Yes, that's fine".

With regard to the relationship between P and M and between P and C, the importance of P's role as co-ordinator is clear since it is her knowledge of both M and C that has brought the two together for the purpose of the successful establishment of the counselling service. Thus the Faith-Based Trust that is forming between C and M is due partly to the relationship each has with P. It is interesting to note the continuing importance of P's role and her continuing relationship with M, even after C and M have established a working relationship, as indicated by M checking with P whether it is okay for C and M to go and see the room that he has set aside for the counselling sessions (P5:iv). In spite of the forming relationship between C and M, successful implementation of the counselling service is still dependent in part on P's continuing willingness to co-operate with both C and M, who both trust P to produce more business cards for them (P5:iii). P's co-operation is based on her trust in C and M and a low co-operation threshold brought about by her perceived competence of both (P4), and the potential utility to SC of successful implementation and use of the service, overcoming the cost incurred of printing more cards (P1, P3) - a cost which M also signals his awareness of (P5:i).

With regard, finally, to the future relationship between C and EC's employees, it may be seen that this will depend (at least in the initial stages) on their trust of M. This is because in the forming of the Faith-Based Trust between C and each employee M will, by default, be seen by the employees to have taken on the role of co-ordinator - the problems of which M readily acknowledges in his opening remarks. In coming to a decision whether or not to engage in co-operative behaviour by talking to the counsellor the risk of their doing so being told to M may be sufficiently high as to prevent it, in spite of their recognition that they may need to make use of the counselling service (P3). This is an example of a comparatively weak trust (in both M and C on the part of the employees) being insufficient to overcome

a high co-operation threshold, and is indicative both of the problems surrounding confidentiality and of the influence of other social factors, such as loss of face involved in going to a counsellor, that add to the risk involved for each employee (P3). The difficulties this may present to the successful implementation of the counselling service are recognised by all parties, and the solution is seen to revolve around increasing people's trust of M's motives by indicating (and ensuring) that he is not involved as a co-ordinator, and rather that there will only be the relationship with C (P5:i, ii and iii). Lastly, this case is therefore an illustration of a) the role of the co-ordinator in generating Faith-Based Trust and Faith-based Co-operation (i.e. an apparent and almost immediate willingness on the part of one individual to carry out a task for another following their introduction by the co-ordinator; the central indication of Faith-Based Trust, paralleling Powell's assertion, discussed in Chapter III, of co-operation as the central indication of other more resilient forms of interpersonal trust (1990:326; Volery, 1995)), b) the comparative 'weakness' of such trust and co-operation and, consequently, c) the need for other forms of trust for the development of longer term effective working relationships.

#### *Case 2: An Illustration of Trust Development*

Following the identification of the importance of the role of the situational trust relationship between the co-ordinator and the other parties in generating Faith-Based Trust, it is informative to attempt further illustration in order to explore its development further. With this in mind, the second case concerns a workshop with a group of managers at OS, a large public service organization. The organization, which employed over one thousand people, was undergoing a period of restructuring and downsizing. The workshop was held one afternoon at the organization's head office and was intended to launch a telephone referral service. This basically was designed to operate such that managers would refer employees they felt required counselling through the telephone service to SC, who would then appoint a counsellor to the case. P made it clear on the way to the workshop what she felt would be the main issues which she would have to deal with, and gave a hint as to their potential magnitude:



37) P. The problem is that they have just effectively had a change of ownership. From being clearly state run, they are now operating as a non-governmental organization and cost is an issue. They are downsizing and cutting costs and so I expect there will be a real crisis climate in there. We've had some business with them for quite a while now - even before they changed hands and D, the new Personnel Director, recognises the importance of the services we have provided in the past. Even if it was not well utilised. And I have to say I am thinking it is really needed now. That's why I've come down today, even though it has meant leaving the office without cover and H [a part-time employee of SC] is having to stay at home to take any calls that come through - thank god that re-routing system seems to be working now. We shall have to stop on the way back and phone, by the way. But it's especially important the service works with things as they are and I think that's why she [D] wanted me to go down and talk to the managers themselves. But I am a bit nervous about it frankly, 'coz I don't know how they'll react - I don't know how they are feeling about *her*... (24/10/96).

After a lunch of coffee and sandwiches, the initial introduction was given by D to the group of 17 managers, nine of whom were women, eight of whom were men and all of whom had at least three years' service with the organization. This was followed by each individual including P and D giving a personal introduction of themselves and their role in the organisation. P then gave a talk lasting about forty minutes about the service and described the work which SC did generally, during which there was a definite sense of resistance. This was indicated both by the very defensive postures (i.e. folded arms, crossed legs and a maintenance of direct eye contact with P, interspersed with occasional glances at fellow managers) adopted by half the group (11/19), and also by the silence which greeted any of P's attempts to open up the discussion by asking the managers to contribute their own thoughts.

Following the conclusion of P's talk, and a half hour session during which the managers split up into sub-groups to discuss symptoms of stress, D addressed the group:

38) D. I'm aware there has been some confusion of late with regards to the service, and who you can and cannot refer and so on. And that there are all sorts of issues, especially confidentiality that are worrying you. Peer pressure, shame, people thinking others are weak for using the service. Generally, there is a principle of 100% confidentiality, but there are some things we must know about, by law - drug use for example - and so there must be a process of confidentiality breaching.

Manager X.[to P] Well, I am a counsellor in another field. With regard to confidentiality, how do you go about breaking that? Is it only the counsellor's decision?

P. No, not entirely. There is a system of supervision, case management and a clinical psychologist to determine whether it is necessary to breach confidentiality. I imagine that is what you have in the counselling you do?

X. Yes, that's right. Thank you.

P. [to the group] Counselling is not something which people should be ashamed of. As I said earlier, I am a trained international negotiator, apart from being a trained counsellor. You know? I've worked for ACAS and the European Court of Human Rights in Strasbourg. But I go to management supervision with a clinical psychologist myself. And I admit it took a big step from my part at first. But now I use the sessions as much as an anger dump as anything, and I really beat him up about things, poor devil. He gets paid for it of course, so he doesn't mind. But it really helps me because when I leave I am clearer minded and know what's got to be done with my own job.

Manager Y.[to P] Well, I would be very wary of accessing the system myself as it is now for a lot of personal reasons, and questions of professionalism.

D. I know in the past referrals were less formally handled, and I am aware people are feeling very down and we all become very wary of procedures. But the system is there to ease the process. You know? Referring people up the line...

[silence]

D. Well, thanks everyone very much for coming along. Thanks, P. You've been a great help.

After the session, D and P had a brief discussion about how the workshop went:

D. What do you think?

P. There's a helluva lot of resistance there, D.

D. Well, one of the things in the current climate is that although you have got to say to people their performance is not up to standard now that the standards have changed, you also have to be really careful to ensure that you put it across in a positive light... The fact that so many people are raising the confidentiality issue with regard to managers' confidentiality of others and manager's confidentiality of managers as a problem, indicates the problem exists.

P. It's always a problem. And counsellors differ too, you know. I have had to be really careful who I get to work here - and under what terms - because some counsellors absolutely will not breach confidentiality at all. Under any circumstances.

D. Yes. There's no way around it in this type of organization, as you know.

P. Well, that's why I agreed to alter our procedure - we wouldn't do it ourselves normally.

D. Yes, I know. I mean, I can think of situations here where management-employee relations may not be good, and referring someone is potentially fraught with implications for people's job performance anyway. Especially as I have access to personal information and have to provide references and so on. And the resistance is partly historical because of the shake up that went on. And then there is also the problem of how the manager is coping with it all himself. I must say that the grapevine has been the source of information in the past, keeping people in touch with what is going on. Thanks, P. That has been a really helpful session today. But again at the end of the day, we are back to this situation of developing trust with someone - me, who hasn't been here long.

P. Well, D, trust is never immediately offered. It has to be built up.

D. That's the problem at the moment, with all that is going on, and rumoured to be going on. And I cannot tell them what is going on, but they are not far wrong. Which makes it doubly difficult (24/10/96).

Analysis of this set of conversations reveals a number of other trusting co-operative relationships, as well as a non trusting unco-operative relationship, that allow an exploration of some of the complexities of Faith-Based Trust Development. This is especially with regard both to the role of the co-ordinator (in this case D) and her relationship with the other two parties affecting the development of Faith-Based Trust, and also to the importance of other situational factors affecting the development of trusting co-operative relationships in general.

Turning first to the main trusting co-operative relationships under consideration, there is the relationship between P and D which, in spite of the relatively short time D has been in post has been built up over a number of interactions to at least Dependence-Based Trust. Given P's guarded comments regarding how she is unable to predict how the managers are reacting to D, it is unclear whether she has herself established a relationship with D herself that could be described as a relationship based on CSQ

Reliance-Based Trust. Nevertheless, the importance of the successful establishment of the counselling service is sufficient to produce a low co-operation threshold for her to engage in co-operative behaviour by undertaking (what was) a 200 mile round trip and accede to D's request to run the workshop (P2). Lastly, it is interesting to note that there is no indication of the impact of utility in determining P's co-operation threshold (P1), in spite of the fact that the contract concerned is a potentially lucrative one, emphasising that the primary determinant of P's co-operation threshold in this case is her perceived importance of the situation.

There is next the relationship between D and her managers which, from D's assessment of their feelings may be one of CSQ Reliance-Based Trust on her part, since she is able to predict their reactions (P5:i), but from the general evidence in the case is Dependence-Based Trust on their part. Such a difference in trust levels would explain the tension felt between D and the managers, since one side (D) is being as co-operative as possible while the other side (each, or most, of the managers) are not being co-operative. This is indicated both by the fact that at no point in the workshop did any of the managers directly address D in spite of her efforts to engage with them, and also by the stony silence which greeted her request of them to operate the sequential referral system (with her as the ultimate referee) that has been put in place. Such lack of co-operation is illustrative of the manager's insufficient trust of D to overcome their relatively high co-operation threshold brought about by high risk assessment, which in turn has been brought about as a result of their belief that confidentiality will be breached to the detriment of people's job security. While this same issue was raised in Case 1, M's intention to counter it by ensuring he is "not in control of the service, and consequently that [employees] are free to go" differs from D such that, unlike M, she fails to demonstrate a willingness to support employee requirements for confidentiality (P5:iii). Nevertheless, D attempts to build some sort of trusting atmosphere right from the start, by getting all the people in the workshop to describe themselves and their roles (P5:iii and iv) although, in the light of the consequent interactions, the success of the strategy is questionable in this instance (see below).

With regard to the relationship between P and the managers, this develops slowly during the course of the workshop, and the pace of its development appears to be being affected by the level of trust the managers have in the co-ordinator D. Since their trust of D is low, it takes a lot of effort on P's part before the managers begin to open up and form some sort of trusting, co-operative relationship by at least engaging her in conversation. Her initial comments about the workshop indicate P is aware of the main issue concerning the managers, that is D's motives and her trustworthiness as perceived by the managers (P5:i), while her continued openness, even about her own counselling and experience as a negotiator (forming an implicit parallel between her experience and the role of many of the managers present, albeit in a different context), represent attempts at establishing trust by indicating her own trustworthiness and competence (P5:iii). Thus, she begins to overcome what is substantial resistance from the managers in the workshop, although it takes her some thirty minutes to do so<sup>12</sup>. Even when some of the managers begin to open up, it is only either to seek corroborative information to establish P's competence, as seen in the exchange with Manager X (P5:iv, P4), or to restate their lack of co-operation with D's wishes by intimating no intention to utilise the newly established referral system because of the perception that it would compromise people's privacy and professional integrity, as seen in the statement by Manager Y (P3).

With particular regard to the exchange with Manager X, by confirming SC's procedure with X in respect of his own counselling procedures, P (either intentionally or otherwise) establishes her competence not only with X, but also with the rest of the managers, since his confirmation of the procedure indicates SC is following procedures recognised by another member of the group (P5:ii, iii and iv, P4). There is thus a shared knowledge established between P and the group and, although much more evidence would be required to verify it, this might indicate a move from a Dependence-Based Trust to a CSQ Reliance-Based Trust relationship on both sides. Although Manager Y's comments immediately after this might indicate to the contrary, knowledge of the interaction concerned leads us to the opinion that hers is more of a comment to P about her opinion of D's insistence that she (D) be informed of certain counselling issues (involving breaches of confidentiality), rather than a negative

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<sup>12</sup> c.f. Case 1, where the Faith-Based Trust and Faith-Based Co-operation formed between C and M was established within two minutes and was due, for the most part at least, to the trust each had in the co-

comment regarding P herself. There is some evidence for this in D answering Y's comment, even though Y's comment was clearly directed at P. Such an interpretation would, indeed, add further weight to the argument that there is developing through these interactions a growing trust of P on the part of at least some of the managers, since Y is happy to share openly with P her feelings regarding the nature of the service (and by implication her feelings for D, or lack of them).

It is interesting to further note P's final comment to D "trust is never immediately offered. It has to be built up" in the light of the preceding discussion. In the first instance, the comment is aimed at D and signals a lack of opportunity for interaction between D as the new incumbent and the managers, as the possible source of her difficulties (P5:i). A review of the various conversations in Case 2, however, also indicates that, regardless of whether P is referring to the conversations she has just had with the managers in the workshop or whether she is simply recalling past experience (clarification of which was not possible due to the field study setting within OS), the comment applies not only to D's trust relationship with the managers but also to P's relationship with them, and the implications of this are explained as follows. Given the precondition for Faith-Based Trust stated earlier that 'the conferring of Faith-Based Trust, *ex ante*, by one individual on another in the temporary group will come about as a result of an assessment of the trustworthiness of the *co-ordinator*', it is clear that Faith-Based Trust was not present on the part of the managers toward P, since there was an absence of any meaningful trust between the co-ordinator D and the other members of the temporary group (i.e. the managers in the workshop).

This case therefore provides an illustration *not* of the development of Faith-Based Trust, as one might at first think, but rather an illustration (in the *absence* of the possibility of Faith-Based Trust development) of interpersonal situational trust development, built up over a series of exchanges. What is remarkable is both the speed with which this situational trust appears to have been built (the workshop lasted two and a half hours) and the fact that P may have succeeded in not only establishing a

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ordinator. See below.

Dependence-Based Trust, but also in some cases a (stronger) CSQ Reliance-Based Trust<sup>13</sup>. The speed of development and the strength of the trust itself may be explained partly by the crisis situation in which the managers found themselves. That is, they are in an organization with changed ownership undergoing cost cutting and changes in procedures, and they do not have sufficient trust of D - issues which D herself recognises in her conversation with P after the workshop. Nevertheless, we may compare the development of Faith-Based Trust in Case 1 with the development of situational trust in this case and note that, even taking into account the fact that crisis situations are noted for their tendency to act as "magnifying loci" for trust development (Mishra, 1996), the work required to establish situational trust is clearly substantially greater than that required for the development of Faith-Based Trust.

Turning now to other situational factors affecting trust development and co-operation, these have a number of consequences both for the relationship between D and the managers and for SC. With regard first to the relationship between D and the managers, the organizational constraints of not being able to reveal future plans and legal requirements regarding confidentiality breaching are a major hindrance to the development of a trusting co-operative relationship between D and the managers. This is something D herself recognises in her final comments to P, where she acknowledges the major issues that are troubling the managers (i.e. confidentiality breaching and implied future lay-offs) and notes that her inability to tell them what is going on makes the establishment of the trust relationship she needs "doubly difficult" (P5:i). This particular example therefore also provides evidence for unwillingness to share information hindering trust development (P5:iii). This might provide part of the reason why D's attempts at openness in the early part of the workshop have little effect (see above), since they did not address the main cause of the insufficient trust (see above).

These situational factors also impact on the small business SC, since P (as the owner of SC) has co-operated with D by actually altering company policy and exercising extreme care in her selection of

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<sup>13</sup> The lack of Confidence-Based Trust in either of these cases may be explained by the fact that the relationships discussed are not such that there is sufficient understanding of each other's requirements for them to be able to take their place in different personal interactions. It is suggested that such relationships may be encountered mainly between business partners, and this parallels the situation in which this type of trust was originally identified - that of intimate personal relationships, such as marriages (Boon and Holmes, 1991).



which of SC's counsellors to appoint to work with OS. This co-operative behaviour on the part of P is in addition to her agreeing to run the workshop, although the reasons for doing so are the same (see above). Yet the situational factors within OS have an even wider impact on SC, over and above contributing to both an altering of policy and P's drive down to the company to hold the workshop, for the consequence of this is that P has to rely on the trusting co-operative relationship she has with her part time employee H to spend the afternoon in taking care of any counselling business that is phoned in, in P's absence. This case therefore provides some illustration of how a trusting, co-operative relationship with a customer may lead the small business to make not insignificant alterations to its own internal policies and operational working practices. Lastly, the problems brought about by the conflict between OS' requirements regarding confidentiality breaching and the majority of counsellors not willing to involve themselves in the practice, as hinted at by P at the end of the workshop, as well as the engaging H on her day off and the consequent need to phone on the way back from the workshop, also provide some indicative evidence of Low and Srivatsan's argument concerning the need for entrepreneurs to be able to balance the requirements of different trusting, co-operative stakeholders<sup>14</sup> in the successful conduct of their business (1995:71).

*Case 3: An Illustration of the Effect of a Crisis on Trust*

The previous case (Case 2) gave some illustration of the way in which a crisis situation may speed trust development. It is appropriate, therefore, to now attempt further illustration of the way in which a crisis may magnify an already existing trust (see Chapter III and Mishra, 1996), as provided by the following extract.

39) ' P's son, S, being bored with his school holiday, forced his mum to take him down to the playing fields to play football at 10 this morning (this also served to get him out of her hair for the rest of the morning), just prior to the IIP [Investors in People] assessor's arrival. I

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<sup>14</sup> This would include not only H but also any customers who had called in during the afternoon. Not to mention P's husband who, in anticipation of her late return, had agreed to stay in and look after the children instead of training with his rugby club.

consequently was asked to send a fax to BT in her stead, who have sent a bill for £10,000 and threatened to cut the phones off - including the free-phone help line which we pay for, and which is a cornerstone of the business (in spite of the fact that they agreed to a moratorium on things until they had settled the claim for loss of business due to their not setting the lines up properly for the new office). This is a rather important fax! The end result is that I am to send a fax, due to the crisis leaving me as the only one left, on a fax machine I have never used before. I consequently don't know how it is supposed to work, have no instruction book and there are very few markings on the fax machine which is one of the more complex compact variety. I hope I put the pages in the right way up. I cannot even check it, as BT's own phone is down!! Later in the day P gets a call from somebody unknown in BT asking why the bill hasn't been paid, and P simply says "refer to the fax", relying on me having done my job properly, even though she knows there was no way of checking and re-sending if necessary. Quite unnerving, I must say' (10/10/96).

This extract provides a useful illustration of the way in which a number of factors may rapidly conspire to generate a crisis out of what would have been an everyday operational situation of P sending a fax to a supplier, with resultant implications for the development of trusting co-operative behaviour. Leaving the relationship between P and BT aside, other than mentioning its illustration of how one relationship may affect a second relationship between one of the parties in the first relationship (P) and a third party (the author as a member of SC), the impact of the lack of co-operation on the part of BT regarding the agreed moratorium (as indicated by the arrival of the phone bill) is such that an immediate and successful fax transmission assumes abnormal importance. At this stage the crisis, while directly affecting P, has no impact on the relationship between P and the author MD. However, P's son's demands coupled with P's willingness to co-operate with him (due to the importance of his being away from the office), as well as the immanent arrival of the IIP assessor and the absence of any other personnel in the office, lead to P trusting MD to send the fax in her absence (P2). Thus, it may be seen that her general trust, built from a series of past situational trusts, has come into play in a new situation.

This general trust is Familiarity Reliance-Based since there is little shared understanding of the situation with BT or of how the fax machine works. The importance of getting her son away from the office, coupled with the utility of a successful fax transmission is sufficient to overcome any question in P's mind regarding the MD's competence with the fax machine or the related potential risk of an incorrect transmission (P1, P2, P4), resulting in a lowered co-operation threshold than existed previously (prior to her son's demands) when she was preparing to send the fax herself. Thus a trust which would normally be insufficient to overcome a co-operation threshold has become sufficient in the situation, due to the crisis bringing about a lowering of co-operation thresholds. It is interesting to note the keenness with which the crisis is then felt by MD who, being unable to refuse the request due to the urgency of the situation, is nevertheless very aware of the potential risks involved. The way in which interpersonal trust may be used as a means by which to replace an absence of explicit knowledge, thereby reducing the complexity of the situation, may also be seen in P's insistence on BT referring to the fax which neither she nor the author can be certain has been properly transmitted. Nevertheless, apparently successful completion of the task entrusted led to the author being asked to send another fax to a customer company later in the day, in spite of the fact that P was then present to do it herself (P4). This example therefore lastly provides evidence for the general argument set out in Chapter III that trust is built up as a result of interpersonal interactions, and develops from one trust type to another.

#### *Case 4: Illustrations of Trust in Operational Decision Situations*

The previous case illustrated the way in which crises might develop in an everyday operational situation, and may affect the trust and co-operative behaviour of the individuals in the situation, producing lowered co-operation thresholds and rendering trust as an important means by which to reduce the complexity of the situation. The role of trust and co-operation in operational situations not affected by the development of a crisis may be seen in the following conversation between J, P and the author, MD, regarding a decision to telephone the Investors In People (IIP) assessor to postpone an assessment referral meeting.

40) J. P, have you phoned the assessor yet to postpone the meeting on Thursday?

P. Oh, no I haven't, J. That's a point. And it's too late to do it when I get back to the office tonight, because she'll be away. We are postponing it to December.

J. The assessment or/

P. No the assessment referral. We'll have to try and fit the assessment in in January, which would give us both [J and P] more time to get things together.

MD. Well, I am in the office all day tomorrow. I can do it tomorrow while you're away in Inverness.

P. No, that's okay, Mark. I think I need to do it, because I really need to talk to her about some of the nitty gritty - the way the assessment will be carried out and what we've done and what we haven't, you know? Because of this problem of time and getting around the bureaucracy of the system. And you're away on holiday from tomorrow, J, with the family?

J. I am, P, yes.

P. Right, that's okay. Hmm, and she's likely to be a bit cross as well. I'll do it tomorrow when I get a break between meetings (17/10/96).

Here we see P refusing MD's offer of phoning the assessor - her unwillingness to engage in co-operative behaviour - as a result of her feeling MD is unaware of the details of the situation. That is, her perceived lack of competence of MD, combined with the risks involved in not handling the phone call properly given the assessor's apparent sensitivity (this may also have carried with it the added possibility of the IIP assessment being turned down) are such that her co-operation threshold is sufficiently high for her

Familiarity-Based Trust of MD to be insufficient in this situation to handle the call (P3, P4). This is not the case with J, whom she has a CSQ Reliance-Based Trust of in this situation, since J has been handling much of the IIP assessment (see also below) but, as J is going to be absent from the office, this leaves P with the task of fitting it in. It may be seen that this is therefore an illustration of how insufficient trust in one individual in one situation may have repercussions on the responsibilities of another individual, increasing their workload in the business. Lastly, it is interesting to contrast this operational situation with that discussed in the crisis illustration above (extract 39) and note that, due to the crisis scenario in the latter resulting in an abnormally high perceived importance and utility concerning an immediate fax lowering the co-operation threshold for the situation (P1, P2), Familiarity-Based Trust was sufficient to overcome what would otherwise have been a similar co-operation threshold (due to high risk of having phones cut off, limited competence of the individual in working the fax machine etc.) to that which resulted in MD not being trusted enough to phone the IIP assessor (extract 40). This may be confirmed by reminding ourselves that, were it not for P's son intervening with his request to play football, the crisis described in extract 39 would not have reached such proportions and P would have sent the fax herself, as was her original intention.

The previous transcript extract (extract 40) concerning the decision to phone the IIP assessor gave an indication of CSQ Reliance-Based Trust as being the predominant trust type seen in operational situations within the business<sup>15</sup>, with Familiarity-Based Trust only being sufficient to enable co-operative behaviour during times of crisis. The predominance of CSQ Reliance-Based Trust in such operational situations may be explained by the need for those interacting individuals to have a knowledge of the specific business related issues being dealt with in such operational situations. This may be further illustrated by the following conversation between P and J in the front office, while sourcing and collating material for IIP assessment.

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<sup>15</sup> With regard to operational situations involving outside parties, it has already been seen in the earlier discussions regarding trust development that Dependence-Based Trust may play a major role in the trusting co-operative relationships under consideration.

41) P. J, do you want anything on objectives?

J. Yes please, would you add that to your list of things to get done?

P. Yep. [pause] So is that enough for SC's focus?

J. I'm wondering whether we have enough. There's just one more thing to take a copy of.

P. [pointing to a folder of material] Have you finished with this lot, yes?

J. Yes. It can all go away.

P. [Putting folder away] Listen, I need to be getting away to that appointment in Glasgow. Can I leave you to finish this?

J. Well, can we just run through this list?

P. Yes.

[J runs through the list of things still to be done, and P occasionally interrupts with "I'll cover that", or "you're best at covering that" etc.]

J. Will you add 'such-and such' in. You have obviously thought about it more than I have to date.

P. Right, I'll just add something on that.

J. Okay, so I won't worry about that.

P. No, that's okay. I agree with you on this, and I can't think of anything we've left out.

[phone call. P answers.]

J. While you were on the phone I've added some more things you might need to sit down and work through. Is it possible to do that?

P. Okay, I'll get on to that. I'll work on it for next Wednesday (7/10/96).

In this extract, each party's knowledge of the company and of the issues being dealt with in the particular situation are indicative of both individuals having a CSQ Reliance-Based Trust of the other. This is sufficient in both cases to overcome relatively low co-operation thresholds, brought about by the perceived competence of the other in the particular situation, the short term importance of getting the tasks required done and the longer term potential utility of achieving IIP recognition they are aiming for (P4, P2, P1). The result is a willingness to engage in trusting, co-operative behaviour in which each side promises to get things done by a certain date and trusts the other to do the same. This example may therefore also be seen as an illustration of an operational situation which confirms James' argument that "A social organism of any sort whatever, large or small, is what it is because each member proceeds to his own duty with a trust that other members will simultaneously do theirs."

(James, 1903; see also Chapter I for further discussion).

#### *Case 5: Illustrations of Trust in Strategic Decision Situations*

The previous four cases have provided illustrations of: the role of Faith-Based Trust; the way in which trust may be seen to develop; the way in which a crisis may function to alter the likelihood of co-operative behaviour and influence future trust development; and the way in which different types of trust

may function in operational situations, in the small business setting. The role and development of trust in operational decision situations may be usefully contrasted with that in strategic decision situations, in which the longer term future direction and success of the company may be at stake. Such situations are identifiable first by the topics under discussion, and second by the presence in such discussions of key strategic actors in the business, as illustrated by the following two extracts concerning, firstly, the decision to take on part of the business of a rival company and, secondly, the decision by P to devolve responsibility for key tasks to other members of the business.

42) P. The company we had a meeting with yesterday, we are going to take over [parts of] their... business. They are not really interested in it anymore; they are not geared up for it. So we shall inherit, hopefully, all their customers and some of their counsellors. It was quite difficult, because I didn't know what their motives were at first, but it soon became clear they were being pretty open with us - telling us details about their company and their customers - so I began to talk to them about ours too. And it became clear enough there is a match. We seem to be able to communicate well-enough, and I am happy with that.

MD. And how do you see it developing?

P. Well, it is still quite a risk to enter into an agreement like that as a result of a first meeting. But you've got to give in order to get and they are taking a risk too, because they are entrusting their customers to us. You know, and they still have these customers for other projects, so it's their reputation and their business too. And we've got to establish a rapport with their customers - it's by no means a foregone conclusion as it'll go out to tender. It's just that we'll be the preferred option. And then there is the whole question of the integration of their counsellors into our network, because they are psychologically trained and ours are not (09/10/96).



In this extract P, the owner of the business and its main strategic actor, discusses her reasoning behind taking over some of the business of another company. This has come about as a result of a morning long meeting with two of the strategic actors of that company. Although access to only one side of the conversation was possible after the event, the transcript nevertheless provides a useful indication of the way in which trust development may play a large role in strategic decisions of this nature. Since, it was clear that the other company came to the meeting with the intention of offering the business to P, the fact that the other party's side of the account is unavailable is of little importance in this instance. This is because the focus is on the strategic decision making within SC, and therefore P's account of the factors influencing her decision is the more valuable of the two accounts. A number of issues appear to lie at the heart of P's deliberations in the first instance. On the one hand, there is the potential utility in achieving more business (P1), while on the other hand there is the potential risk involved in not knowing the other company's motives. While this at first offsets the benefits (P3), continuing openness and the sharing of values, combined with high levels (as perceived, importantly, by P) of communication on both sides lead a significant trust development, at least on the part of P (P5:iii, iv). This is from a Dependence Based Trust, since P knew neither the other party well (if at all) nor the situation (since she had never had another company offer to give its business to SC) to a CSQ Reliance-Based Trust, in which P knows the other party's business concerns as a result of the process of interaction with the members of the other company during the course of the meeting. There is thus a large amount of shared business knowledge and a sense on P's part that she is able to predict the behaviour and intentions of the other party.

This trust development has been sufficient to overcome a relatively high co-operation threshold, with the result that she is willing to engage in co-operative behaviour and agree to take on the business. The effect of a development to CSQ Reliance-Based Trust on the perception of risk, as predicted by the Theoretical Model of Situational Trust Development, has in this case been achieved apparently as a result of a sense of shared risk by both parties since P is aware of the other party's risk in devolving the business to SC. Indeed, her understanding of the problems as felt by the other company has contributed to the trust development that has taken place (P5:i), while the other party's willingness to engage in frank discussions is indicative of their understanding of P's concerns and requirements for co-operation

(P5:ii), and has thus been a significant factor in the development of P's trust in them. This extract therefore provides an illustration of how a change in trust may lead to a potentially significant growth development in the small business. While there is clearly an attendant implication of the need to develop trusting, co-operative relationships with the new customers, it is also interesting to consider some of the ramifications of P's decision in terms of how the sudden taking on of the new business will affect the trusting co-operative relationships within SC. This is an issue which P is already aware of, as indicated by her concern regarding the integration of the counsellors of the other company within her own network and the co-operation between them, which she notes may hinge on their perception of each other's competencies (P5:i, P4).

The previous extract (extract 42) provided an example of the way in which trust development between two parties may lead to business development, and briefly considered some of the implications of such business development for other relationships within the business. In the light of this, the following extract explores the ways in which interpersonal trust not only enables strategic decisions and business growth, but also influences the way in which that growth may be managed within the business.

43) P. The thing is that I'm feeling rather lonely in the business at the moment; I am feeling a bit cheesed off. I want to be a market gardener. That's how I got this business off the ground. I just feel I have to stick at this for about another five years and then bail out and go back to my gardening. But if it is going to grow more then I've really got to get out there and sell the business and not be stuck worrying about the internal side. I need to be spending most of my time keeping in touch with customers. So I'm glad to keep devolving bits of the business to others, and Md [a counsellor who has been involved in the business from start-up] is going to take over the case management side so that's good because she has got a lot of experience of the counsellors and managing client requirements and so on. But it's difficult, you know, because although I am happy to let people get on with things, at the end of the day the business has got to work, you know, so I'll leap in and stop things if I see it falling apart (09/10/96).

...Ir [one of SC's network of counsellors] is happy to take on part of my consultant role at MN [a large multinational organisation], and she is competent to do that. [And] take H [one of the office staff], at first she was just helping out on odd days, but as she has got to know the business and she has the finance skills, I was perfectly happy to let her take on all the banking stuff because it was clear she could do it. Everybody was surprised I let her have the cheques, but she's trustworthy and she knows the business. So today she had the meeting with the bank manager to sort some things out with overdrafts and bank charges, and to give him some forecasts, and I didn't go. Didn't have to. And she got all she asked for in ten minutes. So I am happy to let her take that on... I don't like taking friends into the network [of counsellors] because the bottom line is whether they have the skills level (10/10/96).

In this example, P describes some of the background to her being in business, and the requirements of her own role for the business to grow, which specifically revolve around the issue of case management in order to free P's time to meet customers and sell the business' products. The result of this prerequisite for growth is that a number of key tasks need to be devolved to other members of the business, and this case therefore provides an illustration of the way in which P's trusting relationship with the individuals concerned determine the roles they are given, which in turn will affect the way in which the business will develop since each of the individuals will bring different skills and priorities to the roles than P herself. It is unsurprising, therefore, to see one of P's main concerns with regard to allocation of role is the competence of the individual. This is the case both in general terms and with regard to the three individuals, Md, Ir and H who are considered specifically. As might be expected with the important nature of the roles, the relationships concerned involve CSQ Reliance Based Trust, where both sides share a similar knowledge of the job required and where P is not trusting them to do a job she cannot do (which would indicate either Dependence-Based Trust or Familiarity-Based Trust) but, rather, a job she herself can do.

The risks to the future prosperity of the business from mismanagement of the client relationship (in the case of Ir), mismanagement of the accounts (in the case of H) or mismanagement of the client-counsellor relationship (in the case of Md) are considerable, as indicated by P's readiness to take over the tasks she has devolved if necessary (P3). Although the ability to take over the roles again in itself diminishes the risk, P's perception of the competence of each of the individuals for the particular roles is sufficient, along with the potential utility of new business that might come from her being able to get out to customers more frequently, to lower her co-operation threshold enough for CSQ Reliance-Based Trust to elicit co-operative behaviour on her part. This extract therefore illustrates how trust and co-operation threshold combine to affect the way in which some of the issues relating to growth are managed within the small business. Lastly, P's final comment regarding the recruitment of friends into the business, in which she emphasises skills above friendship, also provides further illustration of the way in which CSQ Reliance-Based Trust relationships appear to take precedence over Familiarity Reliance-Based Trust relationships in key situations in the small business setting, due to the knowledge intensive nature of such situations (see also extract 40 above).

*Case 6: An Illustration of Trust Decline*

The previous case considered the role of trust in strategic decision situations in the small business, and gave an example of the way in which significant business growth may be facilitated by positive trust development (extract 42). It also illustrated how the management of business growth depends on the nature of the trusting co-operative relationships that exist between key functionaries in the business (extract 43). That is, for key management tasks to be devolved by the entrepreneur there has to be a trust relationship built up over a series of past interactions (except in the case of Faith-Based Trust - see extract 34), combined with a requisite level of perceived competence for the task concerned. In the light of the previous discussion in Chapter III regarding circumstances that lead to trust decline, the devolvement of role responsibility to other members of the business in turn raises the question of what happens when the expectations of the trusting individual for the particular role are not met by the actions of the trusted party. The purpose of this case is therefore to explore some of the ways in which

trust might be violated, and the consequences of the resulting trust decline between key actors in the small business. It concerns the relationship between P and J, a member of the office staff who was responsible for the drawing up and maintenance of customer contracts and the progression of the company towards achieving Investors In People (IIP) accreditation (see also extracts 30 and 31 above). The following three extracts respectively concern a conversation about her role in SC, a conversation the following day with P about J's role in SC, and a later conversation with P regarding a contractual agreement with an outside customer written by J.

44) MD. ... And how do you see your own role developing?

J. I don't know. There is a big question mark. P and I work side by side and we have a very good co-operative relationship. She is very good at taking things and driving them forward, I am better at editing and making them look smooth and tying up loose ends. I'm not sure where my role will develop to. If there was enough contract work I would do that, I suppose, but that would be a bit tedious... [T]here are discrepancies in these [CW] figures which I hadn't expected and which are slowing me down. And I cannot charge any more time... I try to take a lot of the work off P's hands. But the trouble is that she always wants to come back and have a look at it - it's very difficult for her to delegate, and there are times when I feel if she would just leave us to get on with things then she could go out and get more work. And there is not enough at the moment for me to do to be here all the time. And so I don't know where my job is going - there isn't a job description (15/10/96).

45) P. You see the thing is that she is not growing her role. And she is still blocking me - she's always finding reasons why we shouldn't do things. And she really hasn't done as much as she should with IIP. And these figures for CW where there are discrepancies. She should really have that under control. And things like the agenda for the meeting on Thursday. She should know what

it is, or if she didn't get on the phone and spoken to E (personnel manager at WC) and got it sorted. She shouldn't be waiting for me to do it.

MD. I wonder whether she thinks that, as you run that contract [it is one of the major contracts] and you have a long-standing relationship with the company, that you would arrange that sort of thing.

P. But, Mark, that's her job. What's the point in me trying to devolve a lot of the roles only for them to be lumped back on me again.

MD. Yes, I know. But does she know?

P. Well, I have been through the role with her a number of times. And it is so obvious. All it takes is a bit of free thinking and forward planning on her part. A bit of entrepreneurial spirit. She is not proactive, only reactive. And that is a problem (16/10/96).

46) P. J has taken out one or two things in this contract, which I really do want in. And we need to alter 'will provide' to 'we are offering to provide'. I don't know what's happening to these contracts.

MD. What is happening?

P. Well, J has been doing these contracts, and on the basis of this I am not sure what the contracts are like now. Which is a real worry. I am ending up giving more and more to H and M (21/10/96).

In the first extract (extract 44) J gives her thoughts regarding the basis of her co-operative relationship with P, revolving around their shared knowledge of the situations in which they work together, and in which each complements the skills of the other. This is therefore an illustration of J's CSQ Reliance-Based Trust relationship with P. However J also makes clear she feels there is a lack of communication on P's part regarding the specific job role she is being asked to perform, in addition to which she feels P's constant interventions are detrimental to the company and operational circumstances (lack of time available and few contracts) are preventing her from doing her job properly, all of which are creating a sense of frustration and insecurity on her part. This extract therefore illustrates a number of the situational cues noted in Chapter I as affecting interpersonal trust, accurate communication, the expression of confidence in a person's ability, and job security, all of which J feels are lacking in her relationship with P. It also provides further evidence for the importance of sharing information and demonstrating a willingness to commit support to the work in hand (P5:iii), both of which J feels are lacking on P's part, which J feels would be better indicated by her absence from affairs rather than her presence. Thus, in spite of J's best efforts, as she sees them, her trust of P is being undermined by P's actions, as a result of constant re-enforcement by P provides on-going evidence to J that her expectations of P regarding P's role in the business, and the provision of an adequate role for herself are not being met.

J's feelings of trust violation, and the reasons for them, are usefully contrasted with P's position, as she explains it in extract 45. From P's point of view, J is simply not doing her job properly; the IIP work has not been done and the work for CW has not been completed, and J is not being proactive enough. This leads to a perception of failing competence on J's part and an increased risk that contracts may be lost, which in turn raises P's co-operation threshold to such an extent that the trust she has in J is insufficient for P to continue to co-operate with J by standing by and letting her get on with things; she feels her intervention is necessary and inevitable (P4, P3). This extract is therefore an example of P's willingness, stated in extract 43 above, to "leap in and stop things if [she sees] it falling apart." Yet P's unawareness, in this instance, of J's preferences and concerns regarding her role and P's part in it contribute to the decline of the trust between the two parties (P5:i), since P's expectations are

not matched by J's with the result that both sides sense the other is not co-operating sufficiently, leading to a sense that their trust in each other to do the tasks required is being violated. This extract therefore illustrates further Volery's argument that a significant indication of trust is co-operation (1995), as well as Putnam's argument that co-operation breeds trust (1992:171, in Meyerson et al, 1996) by indicating in both instances its inverse in process (see Chapter V for a discussion). It has therefore also provided evidence for the argument set out in Chapter III that the causes of trust decline are the same as the causes of trust development, except that rather than expectations being increasingly met, they are increasingly not met.

Some indication of the implications for the small business of such trust decline as illustrated in extracts 44 and 45 may be seen in extract 46, in which P's increasing lack of trust in J's abilities leads to her devolving more and more work on other members of the company (as well as herself), increasing their work load and adding further to the need for effective co-operation between them. Lastly, all three of the extracts examined in this case clearly indicate the need for effective communication of goals and expectations on both sides of a trusting, co-operative relationship for its continued success; P's assumptions that everything "is so obvious", whether correct or not, have clearly played a significant part in the gradual decline of trust between the two parties, witnessed during the month-long period of participant observation<sup>16</sup>.

## **SUMMARY FINDINGS**

The six cases analysed above have provided illustrative evidence for the applicability of the Theoretical Model of Situational Trust Development and the Model of Co-operation proposed in Chapters III and V respectively as a means by which the development and effect of interpersonal trust and co-operation may be explained and understood. With regard first to the Theoretical Model of

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<sup>16</sup> Earlier research into interpersonal dynamics in the new venture, using the same research method as applied here, also found a close relationship between trust and communication. It suggested a) the greater the communication the greater the trust, and b) with a decline in trust came increased attempts at



Situational Trust Development, the way in which Faith-Based Trust may play a key role in enabling inter-organizational relations to be established by speeding effective interpersonal exchange was shown, confirming the importance of the co-ordinator and highlighting the need for the conversion of Faith-Based Trust to other more resilient forms of trust to enable long term business development (Case 1). The way in which such other trust types might develop during the course of an extended interaction was also shown, highlighting the importance of effective communication, a sharing of goals and motives, and general openness with other parties for such development to take place (Case 2). The impact of a crisis as a magnifying locus for trust, as argued for in the broader organizational setting (Webb, 1996 and Mishra, 1996) was confirmed and its application extended with evidence from the small business setting (extract 38 and Case 3). This has been explained in terms of the crisis lowering co-operation thresholds sufficient for different types of trust to enable co-operation than would otherwise be possible and, as a result, it may be said that trust then develops and defuses the crisis through its role of enabling the co-operation necessary to resolve it (Case 3 and extract 40).

Furthermore, Case 4 showed the role of trust in operational interactions within the business to be one of enabling a reduction of transaction costs within the business (Casson, 1990:48), in addition to its similar function in inter-organizational relations mentioned earlier, while illustrations of trust development in strategic decision situations revealed the overriding importance of CSQ Reliance-Based Trust development in key business situations in the small business (Case 5). This finding broadly confirms the findings of the first stage study, which suggested that, CSQ Reliance-Based Trust and Confidence-Based Trust were most important in business situations in the small business setting. The absence of Confidence-Based Trust in this study is mainly due to the nature of the relationship between P and her partner, who plays no role in the business, and whose function as a sounding board to P, or otherwise, could therefore not be explored. In the light of the evidence provided in Case 5, it was suggested that significant business development is enabled with significant developments in the trust relationship between the two parties. The impact of business development and the requirements of small business growth on trusting relations were also explored and it was suggested that one major effect of

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establishing communication on the part of the individual whose trust has been violated. See Dibben, 1994.

strategic decisions is to increase the importance of trust relations inside the business. Factors affecting trust decline were also explored, illustrating the importance of perceived expectations being met by the trusted party and the importance of effective communications and shared goals in preventing trust decline (Case 6). Finally, Case 6 also provided indicative evidence for the gradual decline of trust over a series of interactions.

With regard to the Model of Co-operation and the related researchable propositions concerning the influences of utility, importance, risk and competence on propensity for trusting, co-operative behaviour, the research presented here has built on the findings resulting from their initial application to the first stage study transcript extracts by enabling the interactions described in the six cases to be meaningfully analysed in terms of the role of trust and its interaction with co-operation, thereby demonstrating their applicability as explanatory mechanisms. The relative importance of the different determinants for co-operation may be seen to depend on the situation examined. For example, in Case 2 and Case 6 (the illustration of initial resilient trust type development and the illustration of trust decline) the most important determinant appeared to be perceived competence, while in Case 5 the most important determinant was perceived utility. Nevertheless the role of each of the co-operation determinants is seen to be that of lowering (or raising) an individual's co-operation threshold sufficient to enable a given level of trust in the other party to render co-operative behaviour. Thus, the illustrations presented in this chapter provide general confirmatory evidence of the role and interplay between co-operation threshold and interpersonal trust as suggested both by the theoretical developments and the indicative applications of the first stage study material in extracts 25 and 26 presented in the previous chapter.

In addition, the way in which risk perception is said to affect trust and vice-versa (see Chapter III for a discussion) was seen in Case 6, where a decline in trust affected P's perception of risk in the situation from one of relatively low perceived risk to an increased risk, expressed in her repeated concern that she was unsure of what was happening to the contracts. This therefore provides further evidence for the role of trust as an tacit knowledge invoked in the absence of explicit knowledge about a

situation. In this case the decline in trust causes P to again face her lack of explicit knowledge about the contracts being written by J, coincident with her increasing lack of trust that they are being correctly managed, with the result that P feels she can no longer 'trust J to do it'. Lastly, with regard to evidence for that set of propositions derived from the work of Low and Srivatsan detailed under P5, the case analyses detailed above have provided evidence for their appropriateness within the small business setting regarding influences on trust development. This is especially so with regard to P5:i and P5:iii, the ability to diagnose and signal understanding of a stakeholder's preferences and concerns, and the ability to signal trustworthiness and competence through a willingness to share information and commit support to the project, as illustrated in Case 1, Case 2 and (by their absence) Case 6.

## **CONCLUSIONS AND IMPLICATIONS FOR FURTHER RESEARCH**

This chapter has attempted to provide illustrative evidence of the development and role of interpersonal trust in a variety of situations in the small business setting. This has been achieved by in-depth analysis of a number of interpersonal relationships, and the trust and co-operation that has existed (or not existed) within them, as depicted through a set of twenty transcript extracts taken from the participant observation study of a small business. It has examined intra and inter-organizational situations and illustrated the way in which trust and co-operation develops in operational, strategic and crisis situations. Referring to the research questions proposed, and in spite of limitations concerning its generalisability having been derived from an interpretation of data taken from only one small business, the analysis provides indicative evidence for the following answers.

**Q1. How does interpersonal trust develop, and what behaviour affects that development?**

**A1. Interpersonal trust develops gradually and subjectively, from one trust type to another. It is affected by each party's openness, willingness to share information and be supportive, their ability to diagnose and signal understanding of the other's preferences and trust requirements, and their ability to accurately express their own preferences and requirements.**

**Q2. How does co-operation affect what types of situational trust?**

**A2. Co-operation affects all types of trust similarly; co-operation breeds trust and trust enables co-operation. Co-operation is determined by the interplay between co-operation threshold and trust. For co-operation to occur, one party's trust in the other must be sufficient to overcome his co-operation threshold in the particular situation. See also Q.4 below.**

**Q3. What types of situational trust lead to trust of others in:**

**(a) Strategic decision making?**

**A3(a). CSQ Reliance-Based Trust appears to be the predominant type of trust present between individuals in strategic decision situations. This is due to the business-specific knowledge requirements of the small business setting. Where the strategic decision concerns the personal development of the entrepreneur as well as / instead of the business, Familiarity Reliance-Based Trust and Confidence-Based Trust of another may also lead to their being trusted in such situations (from the first stage study).**

**(b) Operational decision making?**

**A3(b). CSQ Reliance-Based Trust appears to be the predominant type of trust between individuals in operational decision situations where those individuals are both business members. This is due to the business-specific knowledge requirements of the small business setting. Where the interaction occurs inter-organizationally (i.e.) between the small business and a customer or supplier, Dependence-Based Trust and Familiarity Based Trust of the another may also lead to their being trusted in such situations (from the first stage study).**

**Q4. How do what types of situational trust affect co-operation with regard to:**

**(a) Strategic decision making?**

**A4(a). The nature of the situation, often inherent with potential risk, requires a significant level of trust development. In the absence of a crisis situation, which may enable less resilient trust types to overcome co-operation thresholds (see also Q5 below), the trust required for co-operation is that built up**

over a series of interactions in which there is a considerable understanding of motives and knowledge of the business scenario (i.e. CSQ Reliance-Based or Confidence-Based Trust). In the case of both individuals' trust of each other overcoming their own respective co-operation thresholds for the situation, co-operation between them will occur. In the case of one individual's trust not being sufficient to overcome their co-operation threshold then co-operation will not occur, regardless of the co-operative intentions of the other party.

(b) Operational decision making?

A4(b). Although the second stage study material both did not illustrate instances of trust types other than CSQ Reliance-Based Trust and provided an operational situation in which Familiarity Reliance-Based Trust was not sufficient to allow co-operation to ensue, the findings of the second stage study do not contradict those of the first stage study. These were that less resilient trust types, including Dependence-Based Trust, may be sufficient to enable co-operation in certain instances. Faith-Based Trust is capable of enabling co-operation in operational decision situations, but this depends as much on the nature of the trusting relationship between the co-ordinator and the other parties; where there is a co-operative relationship between the co-ordinator and the other parties, the chances are that Faith-Based Trust will be sufficient to enable co-operation to ensue, where there is not then co-operation will depend on the establishment of other more resilient types of trust.

Q5 (a). How do crises affect trust development?

A5 (a). Crises affect trust development by their capacity to alter the determinants of co-operation perceived by the individual, and in particular their perception of the importance of the situation, and the relative importance of each determinant to the others in determining that co-operation threshold. This appears to have the effect of lowering the co-operation threshold sufficiently for a less resilient trust type than would be the case in non crisis situations to enable co-operation. Successful resolution of the crisis resulting from that co-operation will enable positive trust development. In cases where co-operation does not lead to successful resolution of the crisis and / or co-operation is not forthcoming from the trusted

individual, then the magnifying nature of the crisis situation will bring about a significant reduction of the trust and feelings of trust violation, with negative consequences for future interactions.

(b). How does trust affect crisis development and resolution?

A5 (b) Trust in itself does not appear to diminish the propensity for crisis development (although its absence / decline may create a crisis), which is predominantly determined by outside factors. The presence of sufficiently resilient trusting relationships can help resolve the crisis through their impact on the propensity for co-operative behaviour (see A5 above), while the role of trust as an tacit knowledge invoked by the trusting party in the trusted party enables the former to 'take things for granted' during the crisis period and therefore 'proceed to his/her own duty', thereby speeding crisis resolution.

Q6 (a). How does co-operation affect trust decline?

A6 (a). Mutual co-operative behaviour, as perceived by both parties, has the effect of building trust between them. Where one party does not see the behaviour of the other as being co-operative, then trust decline will not be reversed, irrespective of the intentions of the other party.

(b). How does trust decline affect co-operation?

A6(b). A decline in interpersonal trust as felt by one party towards another has the effect of reducing co-operative behaviour, since there will come a point where the decline is such that the trust present is no longer sufficient to overcome the co-operation threshold.

Q7 (a). What affect does trust decline have on small business (a) growth (b) failure?

A7(a). Trust decline between strategic actors / key individuals in the business will hinder growth by limiting co-operation and necessitating changes in role allocation. It follows that trust decline will speed the failure of the business for the same reasons unless the decline concerns the relations with one particular individual and/or the cause of the failure is centred around one individual, in which case recognition of the fact by (e.g.) the entrepreneur may enable failure to be prevented by corrective action.

(b). What affect do increases in trust have on small business (a) growth (b) failure?

A7(b). Significant business growth occurs commensurate with increases in interpersonal trust between strategic actors / key individuals in the business, while increases in trust, by enabling increases in co-operative behaviour, may prevent small business failure where that failure is due to problems of (e.g.) communication in the business relationship between the parties concerned.

Q8. What affect do different perceptions of time have on (a) situational trust (b) co-operation?

A8. Abstracted interpretation of the findings regarding trust decline do not contradict earlier research which found that different perceptions of time affect trust and co-operation by altering expected task completion, such that depending on whether expectations of time were more optimistic than that achieved or less optimistic, trust and co-operation would be hindered or improved respectively (Dibben, 1994).

Q9. How accurate is the theoretical trust typology at representing the development and decline of trust in the small business setting?

A9. The Theoretical Model of Situational Trust Development and the Model of Co-operation appear to enable an accurate depiction of the factors affecting trust and co-operative behaviour in the various situations encountered within the small business setting, as well as their growth and decline. The theoretical underpinnings of the models also appear to be accurate in the light of the findings from the first and second stage studies; no significant contradictions were apparent.

#### *The effectiveness of participant observation*

In addition to the findings regarding the role and impact of trust and co-operation in the small business, this chapter has also discussed the applicability of a number of different qualitative methods to the study of process, and suggested that participant observation might provide the most appropriate means by which to build on the first stage study findings and access the process of interpersonal trust development. It also discussed a number of difficulties associated with participant observation and

illustrated them by reference to field notes taken from the second stage study. In spite of these difficulties, however, a re-examination of these same field notes also provided some interesting insights into the role and impact of trust in the small business, even though they were selected for the main purpose of illustrating the practical problems of the research approach.

In addition, this chapter has also indicated the value of studies examining the relationship between the observer and the observed, in terms of the development of trust between them. Indeed, since one of the parties involved in a number of the relationships studied was the author, there is arguably an increased (rather than a decreased) validity in the findings. This is because the subjective internal nature of the trust phenomenon requires the external observer to infer trust from behaviour. Inter-subjectively, whereas if the observer is also the subject of the observation the development of the particular trust relationships with which he is involved may be Subjectively studied in more detail, and more accurately (see also Chapter II for a discussion). Finally, therefore, this chapter may add further weight to the value of the 'observation of (the observer's) participation' form of participant observation approach argued for by Tedlock (1991) in the study of issues central to the development of interpersonal relationships. With these findings in mind, therefore, both the nature of the research setting and the complexity of the phenomena under study compels the conclusion that participant observation represents a valid means by which to study the social processes that underpin management and the organizations in which it does or does function.

#### *Contributions and Further Research*

Overall, the trust and co-operation frameworks developed previously appear to allow the accurate identification of different trust types, and appears to provide the basis for uncovering the interplay between co-operation and trust in the inter and intra-organizational relations of small businesses. In terms of its contribution to research in entrepreneurship, the chapter has shown the key role trust plays in both strategic and operational decision situations, and discussed some of the implications that changes in interpersonal trust may have for small business development. It has also



developed and extended the work of Low and Srivatsan (1995) by providing illustrative empirical evidence for Low and Srivatsan's theoretical argument regarding the personal requirements of the entrepreneur, as well as other interacting individuals, for successful interpersonal trust development. By providing a means for accessing and studying the processes that go towards the formation of business relationships at the level of the entrepreneur, therefore, this chapter has further shown how trust theory provides a means by which to access the wider social and political processes (in addition to more specific business, product and market issues) that have remained relatively untouched by previous studies restricted to business level analysis (Scott and Rosa, 1996), and explored some of the ways in which these processes influence, and are themselves influenced by, the process of interpersonal trust development.

With these conclusions in mind, it is suggested that only by qualitative analysis of the minutiae of trust formation and interpersonal interaction can a clearer understanding of the influences of interpersonal trust on business relationships be gained. Further in-depth research might usefully be aimed, therefore, at examining particular trusting situations in a number of businesses for the purposes of generating definitive rather than indicative findings. In addition, the ways in which the strategic development of trust, identified and discussed in extracts 32 and 34, may affect small business development require further exploration. Lastly, while the research presented here allowed access, on most occasions to both sides of the trusting relationships under consideration, access to the thought processes of the individuals concerned *at the moment* of their trusting judgements was restricted. Thus, while the second stage study has enabled an exploration of the way in which trust and co-operation may inter-relate to affect small business development, it has not permitted an exploration of the efficacy of the theoretical Whiteheadian conceptualisations of the trust development process proposed in the previous chapter. Furthermore, while this chapter has used the Theoretical Model of Situational Trust Development and the Model of Co-operation to unpack more of the complexity of trust development as seen after its occurrence, and provided some thoughts on the relative importance of the different determinants of co-operation in different trusting situations, it has not been possible to enter into a detailed examination of their influence *during the course* of trust development. Further research is

therefore arguably most required at the micro-level of the interpersonal interaction, in order to attempt to illustrate trust development and co-operative behaviour in process, as well as to attempt to come to a greater understanding of the role and importance of different co-operation determinants in relation to different trust types, in different trusting situations. This is the purpose of the next chapter, Chapter VII, which attempts to access the micro-processes of trust development in the business angel investment situation.

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## Chapter VII

### *The Third Stage Study*

*Philosophy is at once general and concrete, critical and appreciative of direct intuition.*

*It should not be a ferocious debate between irritable professors.*

*It is a survey of possibilities and their comparison with actualities.*

Alfred North Whitehead ([1933] 1961)

The previous chapter applied the Theoretical Model of Situational Trust Development proposed in Chapter III and the Model of Co-operation proposed in Chapter V to a participant observation study of a small management consultancy business. This was in order to provide a meaningful understanding of a number of scenarios taken from the study by application of the models, and thereby assess their utility as interpretive frameworks. A number of illustrations of different types of trust were provided, along with their interaction with individual co-operation thresholds and, as a result, indicative 'answers' to the research questions proposed in Chapter III that remained unanswered following the first stage study discussed in Chapter IV were also provided. As such, the main purpose of the research reported in this thesis has been achieved. Namely, to arrive at an understanding of the occurrence and role of interpersonal trust in the small business by means of a qualitative exploration of a number of small businesses and commonly occurring scenarios within them, structured by the attempt to provide 'answers' to a set of fifteen research questions derived from a review of appropriate literatures and the development of a workable theoretical model.

Nevertheless, as a result of the findings from the research and the consequent theoretical refinements, a number of limitations remain and concern in particular the need to attempt to access the trust development process at the level of the interpersonal interaction during the course of its development. This is due to the nature of the data since, although the second stage study provided a

valuable insight into the role of interpersonal trust in a variety of small business scenarios through the analysis of conversations, these conversations were a) often discussions of situations after they occurred and b) always limited in terms of their topic to the situation itself, instead of the underlying thinking of the individuals concerned. Thus, while enabling a study of the macro-process of trust development, observable over the course of a series of interpersonal interactions, these two factors contributed ultimately to preventing access to the micro-process of trust development over the course of one interaction.

It follows that the broad purpose of this chapter, therefore, is to attempt to study trust development during the course of an interaction. Some indications of the way in which trust might develop during the course of one interaction were provided by Dibben, Harrison and Mason (1998; 1996), who applied the trust framework proposed by Lewicki and Bunker (1996) allied with the concept of Swift Trust (i.e. Faith-Based Trust, resembling one of the other trust types such as Faith-Based Trust that resembles Familiarity Reliance-Based Trust), as discussed in Chapter III, and the co-operation criteria developed in Chapter V, in order to unpack the minutiae of interpersonal trust development in the informal investor investment decision situation using a verbal protocol analysis (Ericsson and Simon 1980 and 1983; see 'Research Approach' below) of informal investors' verbalised thought segments. This study was facilitated by a concentration on Faith-Based Trust, over and above other more resilient trust types, as a result of the fact that such situations in which Faith-Based Trust occurs involve the initial development of trust between two parties, as was discussed theoretically in Chapter III and shown empirically in Chapter VI. Analytical difficulties relating to a thorough understanding of the trust extant between the two parties prior to the situation under immediate consideration were therefore non-existent.

While limited to an analysis of only one Faith-Based Trust relationship (that of the informal investor's trust in the entrepreneur) as a result of the co-ordinating medium (an informal investment journal<sup>1</sup>) and the nature of the investment domain, which concerned decisions taken *prior to* meeting the

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<sup>1</sup> The impact trust in the co-ordinator has on Faith-Based Trust development, as illustrated in Case 2 of the second stage study in Chapter VI, was therefore limited to prior knowledge of the journal and therefore far simpler to assess and allow for than is the case when the co-ordinating party is another person. This is due to the complexity of interpersonal trust relationships, as compared with an

entrepreneur (see below), it was found that the model of co-operation proposed in this thesis enabled an analysis of decision making "in time-constrained and only indirectly interpersonal contexts" (i.e. during the course of one interaction, irrespective of the presence of both parties to the relationship), confirming "the formal distinction [proposed in Chapter V and explored in Chapter VI] between trust and co-operation as separately identifiable" (Dibben, Harrison and Mason, 1998; 1996). The research also pre-empted more recent work by Krieger (1997), who also argues that trust is "a major factor" affecting the informal investment decision, by adopting the researchable propositions used in Chapter VI and finding that (a) trust in the investor will be influenced by the ability of the entrepreneur to communicate to the investor his abilities, the potential value of the investment opportunities and the risk involved, (b) the risk taken by the investor is directly related to his trust in the entrepreneur's ability and also the potential utility of the investment (see also Chapter III 'Requirements of Theoretical Situational Trust Types'; also Nooteboom et al 1997), and (c) agreements between the investor and the entrepreneur regarding, for example, the venture's strategic positioning, has a significant influence on the co-operative behaviour of the investor (c.f. Krieger, 1997). This is in line both with the general argument of this thesis, that trust operates as a tacit knowledge taking the place of absent explicit knowledge in decision making, and the thinking regarding the links between co-operation risk, competence, utility, and importance underpinning the Model of Co-operation proposed in Chapter V.

In spite of these findings, however, a number of limitations to the research were noted and primarily concerned a) the need to extend the research to include other "situational domains in the decision making process" in order to come to a more complete understanding of the way in which trust and co-operation come to bear on investment decisions, and b) the fact that the study was restricted to an analysis of trust and co-operation in "the context of an investment opportunity which all but one investor in the sample [stated they] would have rejected", and that it would therefore be necessary to "extend the analysis... to cover situations where there is a positive outcome... and the investor decides to pursue the opportunity to the [next] stage" (Harrison, Dibben and Mason, 1997; Dibben, Harrison and Mason, 1996, 1998). With regard to the first of these limitations, the need to extend the research to other

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individual's trust of an inanimate object (see Chapter I for a discussion, and also 'The 'Co-ordinator'' below).

decision situation domains has in part already been addressed by the second stage study in its analysis of a wide range of trusting situations encountered in the small firm setting, and in particular by its use of the theoretical framework to explore both strategic and operational decision situations. The function of this chapter, therefore, is to a) extend the research of Dibben, Harrison and Mason to an examination of a number of other investment opportunities in the interests of widening the sample size, and thereby b) gain greater access to the micro-process of trust development over the course of a number of different single interactions for the purpose of assessing further the accuracy of Theoretical Model of Situational Trust Development and the Model of Co-operation, discussed in Chapters III and V. With this in mind, the chapter will provide a background to the discussion by a brief literature review of the dominant characteristics of the investment decision, before detailing the precise aims of the research undertaken, the nature of the data used in the research and the approach adopted in analysing the data. It will then discuss the findings of the research and compare them with those of Dibben, Harrison and Mason (1998; 1996) for the purpose of assessing the applicability of the trust models used. In the light of the findings from the study, the chapter concludes with a discussion of a number of areas for research. It is necessary, however, to first briefly revisit the first and second stage studies, in order to confirm the relevance of the external funding situation as one in which trust relations occur in the small business context, as considered thus far in this thesis.

#### **FIRST AND SECOND STAGE STUDIES REVISITED**

Despite the value of the second stage study as providing a means for the exploration and illustration of the role of trust and co-operative behaviour in the small business setting, the issues being faced by the second stage study company, SC, combined with its relatively well-established nature, were such that external funding was not a topic for discussion during the period of the study (see Chapter VI). Nevertheless, the business growth experienced by SC was such that a lack of external funding availability became a major issue for P after the completion of the period of participant observation. This may be seen in a later conversation with P, in which some of the issues considered by the entrepreneur when weighing up the decision to seek external investment are also discussed:



- 47) "I nearly gave it all up last month when the enterprise company turned us down for capital funding - they said we were already too well established. You know? Because the business cannot develop unless it has more investment over and above what the bank has already provided. And I can't put any more in because that would mean re-mortgaging the house and that is not fair on the family" (pers. comm. P: 16/06/97).

A further impression of the importance of external investments (other than bank funding) to small businesses may be gained by a brief review of the first stage study, in which it will be recalled that twelve of the entrepreneurs interviewed had trust relationships with external funding providers other than banks (see Chapter IV, Table 1). As was explained in Chapter VI, however, the nature of the first stage study, geared as it was to elicit information on trust types, subjects and objects occurring in the small business setting, prevented any in-depth research into the nature of these relationships. Nevertheless, the importance of venture capital and, in particular, the value of informal investments made by informal investors, as well as the nature of the trust relationships that develop as a precursor to such investments, may be seen in the following extracts.

- 48) "There were also two private individuals who wanted to invest money in the business with no managerial involvement. They had connections with the company we left, and we wanted to take them on board as suppliers. But they also wanted to invest in the business, although the two relationships are kept separate. They are kept updated six-monthly and supplied with management accounts, but have no managerial influence" (25/JM).
- 49) "I suppose trust arises from competence, partly, from knowing

the motivations are right. Umm. These are key issues. Why do I trust the guy? We have a personal rapport that works, some of it is down to that. I mean I get on with him. It has probably been a year since he was actively involved before he put money in and so, yeah, he had a year to make his mind up - about me. And I think somebody who makes up their mind about you is always somebody who you are going to feel happier with as well, you know, it's just one of those things" (13/AB).

- 14) "I never take advice automatically, but essentially I take IR's (the informal investor) advice; he is a guy I trust very greatly. He is Chairman of the Board. He guides us on strategy and on how to make money out of the technology by getting products to markets. Experience shows me that IR is a pretty trustworthy person. I know why he is involved with the business, I mean he is involved partly because he wants to make some money because that is essentially what he does. But I know that is not the whole motivation, and that part of it is because he sees parallels with what I am doing and what he was doing ten or fifteen years ago, and I mean even more what he maybe would have liked to have done maybe a little earlier than he did it. He is also involved because he sees there is something to contribute" (13/AB).

In the first example (extract 48), which is an extended version of part of extract 26 (used in Chapter V as a preliminary illustration of the interaction between trust and co-operation thresholds), the entrepreneur JM discusses the arrangement she had with two informal investors in the business, highlighting their prior knowledge of the business team which she took with her to her new company

and also her wish to continue the original customer-supplier relationship alongside the investment relationship, which itself consists of regular information flows and an understanding of each other's position. This extract therefore provides a further indication of the way in which ongoing trusting relations depend on willingness to commit support and share information regarding the project concerned, and this is also the case in the second example (extract 49), in which the entrepreneur AB explores the issues which have led to him developing a Confidence-Based Trust relationship with an informal investor (see also Chapter IV). The importance of this trust relationship, as well as the key role of the informal investor in the business that arose as a consequence of it, are further explored in the third example (extract 14), in which AB explains the shared understanding that underpins the relationship and the way in which the informal investor, as a result, is trusted by AB to such an extent that he has a hand in most of the strategic decisions taken by the company.

It may be seen, therefore, that the importance of external capital provision and informal investment have played a significant part in the development of a number of businesses examined in the first and second stage studies, and that the development of significant trust relations between the investors and the entrepreneurs has been one of the major factors in the decision to invest (and accept the investment). It follows that a further examination into the formation of such trust relations between the entrepreneur and the external investor represents an appropriate extension to the explorations of trust in the small business discussed in the preceding chapters. With this purpose in mind, the following section will provide a brief review of issues relating to the informal investment decision situation, as background, before the detailed aims of the study reported in this chapter are discussed.

## **INFORMAL VENTURE CAPITAL AND THE INVESTMENT DECISION SITUATION<sup>2</sup>**

Research into informal venture capital and the role of informal investors (i.e. private individuals who invest personal money in businesses in exchange for a share of profits and/or a managerial or directorial role) in supporting the development of entrepreneurial ventures has grown significantly in North America and, more recently, Europe (Freear, Sohl and Wetzel 1996; Harrison and Mason 1996a). For the most part, this research can be characterised in three ways. First, it has been and remains primarily empirical in nature, reflecting the continuing need to 'put boundaries on our ignorance' (Wetzel, 1986:132) of what is still a largely invisible and secretive marketplace, and there remains a considerable research agenda to continue to explore the attitudes, behaviours and characteristics of informal investors (Freear, Sohl and Wetzel 1996) and identify the characteristics of the informal venture capital market and its constituent elements (Mason and Harrison 1994). Second, there has been a very strong public policy and prescriptive element to the research on the informal venture capital market, focussed on understanding how the market operates and identifying mechanisms by which it could be made to work more efficiently and effectively. This is true at the general level of SME policy debate and formulation (Mason and Harrison, 1995a) and at the level of specific policy developments in the area of business introduction services and informal investor networks in North America and Europe (Harrison and Mason 1996a; Harrison and Mason 1996b; Lumme and Suomi 1994). Third, and partly as a consequence of these two trends, research on informal venture capital has not been characterised to date by a high level of theoretical sophistication.

This, is not to argue, however, that there have not been any attempts to engage with theoretical issues. Recent research has, for example, considered the applicability of the pecking order hypothesis (Harrison and Mason, 1991), decision theory (Landstrom 1995 and Riding et al, 1995) and agency theory (Landstrom, 1993 and Fiet, 1995a, 1995b). It follows from this, therefore, that within the research canon on informal venture capital, the issue of trust has been explored as part of wider studies

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<sup>2</sup> This section consists of an expanded version of material presented in Dibben, Harrison and Mason (1998). It is included here as a relevant theoretical summary of issues that, arguably, would otherwise be beyond the scope of a thesis which appropriately concentrates on trust theory for its main theoretical development.

of information sources, networks and reliance structures (Fiet 1991), yet without the provision of a satisfactory framework enabling a detailed explanation of its role and effect in investment situations. This is in spite of these studies identifying either implicitly or explicitly the importance of trust in such situations. With regard to the informal venture capital market in particular, for example, Fiet's results suggest that the degree of reliance on others in the personal contact network (which was lower in any case for informal investors compared to venture capitalists) was a function of the amount of network experience; in other words, "experience generated trust which controlled opportunism" (Freear, Sohl and Wetzel 1996:16).

#### *Characteristics of the investment decision situation*

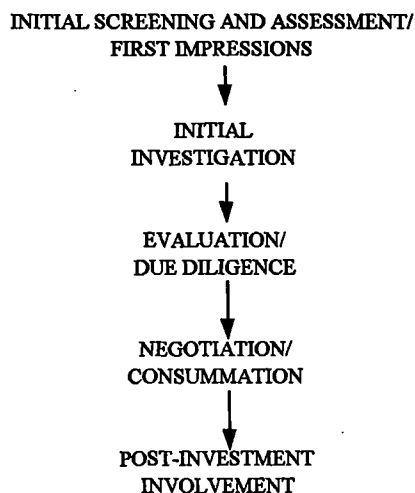
Despite its importance to the financing of SMEs, research on the informal venture capital market remains concentrated on identifying the characteristics of the market (Mason and Harrison 1995a; 1995b). Only recently has this descriptive research progressed to consider the operation of the market from a process perspective (Mason and Harrison 1996a; Mason and Rogers 1996). From the studies which have been undertaken, it is clear that a very high proportion (between 93% and 97%) of investment proposals received by informal investors are rejected (Mason and Harrison 1994; Riding et al 1993). Most of these proposals are rejected on the grounds of a lack of confidence in the abilities of the entrepreneur and/or management team to succeed or on the perceived lack of market potential for the product/service (Mason and Harrison 1994), providing the basis for Fiet's (1991; 1995a; 1995b) analysis of agency and market risk in the operation of this market. However, relatively few of these studies have differentiated among the criteria used at different stages of the investment process.

The investment process undertaken by both venture capitalists and informal venture capitalists has been subject to growing scrutiny since the first substantive analysis by Tyebjee and Bruno (1984). Based on their work, and subsequent refinements by Sandberg, Schweiger and Hofer (1988), Hall and Hofer (1993) and Fried and Hisrich (1994), a six stage model of the venture capital decision-making process has been proposed. In Stage 1 - deal origination/search - potential investments reach the venture

capitalist for a decision, either serendipitously or as a result of deliberate search behaviour of varying degrees of sophistication. In Stage 2, the investor undertakes a screening and assessment of potential deals to decide on those opportunities which will be investigated further, based on initial screens derived from their previously determined eligibility criteria. Stage 3 is the key evaluation stage during which a detailed analysis of the venture is undertaken in terms of the business concept, the principals promoting the venture and the expected returns from the investment (Fried and Hisrich, 1994). Stage 4 has recently been separated out from the evaluation stage to cover the completion of a due diligence process, including formal market studies, checks on references and consultation with third parties (As Riding, Duxbury and Haines, 1995 point out, however, this stage is rarely separately identifiable for informal investors). Stage 5 - deal structuring, negotiating and closing - represents the point at which the structure of the deal is worked out and agreed by the parties concerned, through to the closing of the deal and the transfer of funding. Stage 6, the final stage in the investment process, covers the post-investment involvement and monitoring activity of the investor in the venture.

Applications of this decision process model to the informal investment situation is broadly consistent with the venture capital situation, with two exceptions (Riding, Duxbury and Haines 1995; Mason and Harrison 1995; Mason and Rogers, 1996): first, there is generally no clearly identified due diligence step in the informal investor decision process, as this is either not done at all or is done informally on the basis of the investor's prior knowledge of the market and technology (Mason and Harrison 1996c); second, although often separable in concept, many informal investors in practice do not distinguish between the initial screening and assessment and initial investigation stages as identified by Tyebjee and Bruno (1984) and adapted by Riding, Duxbury and Haines (1995). Their model of the informal investment decision making process, which provides the basis for the development of a number of research propositions which are examined in the context of data collected from a sample of informal investors in Canada, is summarised in Figure 1 below.

**Figure 1** *Decision Making Processes for Informal Investors* (based on Riding, Duxbury and Haines 1995:8)



Based on this recent research into the informal investor's decision making process, Dibben, Harrison and Mason (1998; 1996) suggest that it is possible to identify four basic stages in the process based on the fundamental activities of screening and assessment, evaluation, negotiation and post-investment involvement. In addition, recognising that the role and influence of business introduction services and other forms of networking to improve the efficiency of information flow and availability within the informal investment market has grown significantly (Harrison and Mason 1996a; 1996b) and that there is evidence to suggest that referred deals may be better able to survive the initial screening and assessment process if the investor has confidence in the referrer (Fried and Hisrich 1994:31), there is a fifth element in the decision process which should be separately identified, not by the phase or activity involved but by the institution or individual(s) involved - the intermediary or network providing access to or information on opportunities (see Table 1, below).

This suggests that, from the perspective of an exploration of the framework of trust and co-operation developed in Chapters III and V, five distinct **situational domains** in the informal investment decision making process can be identified within which the role, development and influence of trust relations can be understood. In each of these domains, there is a potentially important role to be played by trust relations, as has been indicated by the comments of the entrepreneurs quoted, for example, in

**Table 1** *Situational Domains in the Informal Investment Decision Making Process* (source: Dibben, Harrison and Mason, 1998; 1996)

<b>Stage</b>	<b>Domain</b>	<b>Description</b>
Stage 1	Screening	Decision to pursue initial awareness of opportunity Review/examination of business plan or outline Decision on rejection or follow up with entrepreneur Multiple criteria used to reject opportunities Initial reaction to the opportunity
Stage 2	Assessment	Evaluation of the merits/worth of the information source Degree of confidence in the referrer of opportunities Quality of the information key to the reject/proceed decision Issue of trust in the medium of information dissemination
Stage 3	Evaluation	Reaction to entrepreneur/management team Decision to reject or enter negotiations Management team and financial return factors increase Due diligence (if any) through network of personal contacts
Stage 4	Negotiation	To make the invest/not invest decision Issues of personal chemistry grow in importance Issues of deal structure and pricing grow in importance One major factor likely to lead to rejection by the investor
Stage 5	Involvement	Decision to become involved or remain hands-off Decisions on level of involvement

extracts 14, 48 and 49 above. However, before defining the protocol to be used in the analysis of trust in the context of this model of informal investment process situational domains, a further conceptual issue requires consideration. In the framework developed in Chapter III for the conceptualisation and analysis of trust as a concept there is a working assumption that trust is something which emerges over time. While this has direct applicability to the informal investment process in those cases where an opportunity is pursued through to investment (where the emphasis of much of the trust literature on the role and development of trust in existing organisational settings will directly apply to Domain 5 as defined above), it is apparently less immediately relevant to the other Domains identified where organisational relationships cannot yet be said to exist and where there is much less time available over which to see trust relationships developing. This is particularly true in the case of the first two Domains as the length of time required to develop more resilient trust types is not present in the initial screening and assessment domains and it is in this context, therefore, that the roles of Faith-Based Trust (as



proposed in Chapter III and discussed in Chapters IV and VI) and Faith-Based Co-operation (as discussed in Chapter VI) again become relevant.

## **RESEARCH AIMS**

The previous sections have briefly reviewed the findings and limitations of the first and second stage studies, the findings and limitations of the earlier study by Dibben, Harrison and Mason (1998; 1996), considered the appropriateness of a study of the role of trust in the informal investment decision process to exploratory research into trust in the small business setting, and highlighted the dominant issues in discussions of informal investment that provide the background to any such study. It follows from the above discussion that the research presented in this chapter is intended to build on the earlier research reported in Dibben, Harrison and Mason (1998; 1996) by (a) utilising the Theoretical Model of Situational Trust Development and Co-operation instead of Lewicki and Bunker's model used previously, and (b) extending the data set from one to three opportunities. The study will therefore make two different, but related, comparisons. It will first apply the Theoretical Model of Situational Trust Development and the Model of Co-operation to three investment opportunities, in order to assess the applicability and consistency of the theory in the light of the findings from the first and second stage studies. It will then, second, compare the findings from the previous study (Dibben, Harrison and Mason, 1998; 1996) that relate to one opportunity with the findings relating to the same opportunity from the third stage study considered in this chapter, in order to enable a comparison of the applicability of the Theoretical Model of Situational Trust Development and Co-operation with that of Lewicki and Bunker's used in the previous research. It will be seen, therefore, that the broad aim of the research presented in this chapter is in line with that of the previous chapters, in that it utilises developed theoretical frameworks in an attempt to provide further insight into the role of interpersonal trust in the small business by means of illustratory analysis of qualitative field data taken from a separate, yet related, research setting.

With this in mind, the study will attempt to provide indicative 'answers' for the following eleven research questions, which appropriately complement those asked in Chapter III:

1. What sub-types of Faith-Based Trust are most important in the investment decision situation?
2. What sub-types of Faith-Based Trust are most common in the investment decision situation?
3. What affect does trust in the co-ordinator have on the development of Faith-Based Trust in the investment decision situation?
4. What sub-types of Faith-Based Trust lead to investment decisions?
5. What sub-types of Faith-Based Trust lead to non-investment decisions?
6. In what way does interpersonal trust develop during an interaction resulting in a) an investment decision, and b) a non-investment decision?
7. What Faith-Based Co-operation Criteria are most common in the investment decision situation?
8. What Faith-Based Co-operation Criteria are most important in the investment decision situation?
9. In what way does co-operation threshold develop during an interaction resulting in a) an investment decision, and b) a non-investment decision?
10. What co-operation criteria have the most impact in determining a) a low co-operation threshold, and b) a high co-operation threshold in the investment decision situation?

11. Is the distinction between Familiarity Reliance-Based Trust and CSQ Reliance-Based Trust, as proposed in the Theoretical Model of Situational Trust Development, helpful in understanding the process leading to different decision outcomes, when compared with Lewicki and Bunker's concept of Knowledge-Based Trust?<sup>3</sup>

The rest of this chapter is devoted to an explanation of the research approach adopted for the third stage study, the data utilised, analysis and findings. The chapter concludes by attempting to 'answer' the research questions here proposed and, in the light of these 'answers', suggests a number of areas for further research.

## **RESEARCH APPROACH<sup>4</sup>**

As will be clear from the previous sections and the research questions guiding it, the focus of the third stage study was on the initial screening and assessment stage, when informal investors first become aware of an investment opportunity and decide whether it is worth considering in detail. This is the stage at which the majority of investment opportunities are rejected (Landstrom 1993; Riding et al 1993; Mason and Harrison 1994), and is therefore a key strategic decision situation both for the informal investor seeking to invest and (it follows) the small business seeking investment. The study used verbal protocol analysis, which is a methodology that captures decision-making in real time and has been used successfully to examine the decision-making processes of venture capitalists (Sandberg et al 1988; Hall and Hofer 1993; Zacharakis and Meyer 1995). This methodology involves asking respondents to 'think out loud' while they perform a particular task, and is based on the assumption that the vocalisation of thoughts has the form of inner speech (Ericsson and Simon 1980; 1983). Thus it represents a suitable

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<sup>3</sup> It will be remembered that the failure of the Lewicki and Bunker model (1995, 1996) to distinguish between interpersonal trust derived from knowledge of the situation and interpersonal trust derived from knowledge of the individual was one of the factors behind the development of the extended framework proposed in Chapter III. The efficacy of this extension in a study of the role of trust in a number of situations was shown in Chapter IV, where the utility of the distinction between individual and situation knowledge in terms of trust subject - object relations was shown (see Chapter IV, Tables 1 and 2, and Answers 3, 4 and 5). The purpose of this question is to attempt to uncover the utility (or otherwise) of the distinction at the micro-level (i.e. in analyses of trust development during one interaction).

method for the investigation of an individual's trust development during the course of an interaction, since such an investigation revolves around gaining access to an individual's thinking (i.e. his weighing up of factors leading him to the decision and/or his consideration of situational cues leading him to trust and co-operate).

### *The Respondents*

The nineteen investors who participated in the study were either known to the research team or were recommended by a business introduction service. The difficulties in identifying informal investors are well-documented (Wetzel 1981; Mason and Harrison 1994). The consequence is that the population characteristics are unknown and probably unknowable (Mason and Rogers, 1997). It follows, therefore, that the 'representativeness' of the group used in this study cannot be assessed. However, they do conform to the now well-established profile of informal investors (Mason and Harrison 1994; 1995b; 1995c) in terms of gender (only one woman), age (predominantly between 45 and 64 years old), with an industrial/commercial background, and prior experience of founding one or more businesses (median of 2), and were selected because they are all active investors. The mean number of investments made over the previous five years was 6.4 (median 5.5). Moreover, most could be judged to be 'successful' investors, with seven having achieved at least one profitable investment. The others had started investing only relatively recently and for this reason have not yet sought to exit from any of their investments.

### *The 'Co-ordinator'*

The respondents were given three investment opportunities (although not all commented on all three<sup>5</sup>) that were featured in recent issues of *Venture Capital Report* (VCR) and which they were seeing

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<sup>4</sup> This section is a substantially restructured version of that used previously, amended and expanded where necessary for the study considered in this chapter and to provide further detail and justification of issues relating to the approach (c.f. Dibben, Harrison and Mason, 1998; 1996).

<sup>5</sup> This was because a number of the respondents indicated that they would not consider the investment proposal in question, either as they had no interest in it as an investment opportunity (often expressed as "I wouldn't even consider investing in that market. I'd pass straight on to the next proposal", or because they simply could not give any more time for the interview (often expressed as "Nope. Sorry I haven't got time to look at another one [proposal] with you").

for the first time. Nevertheless, the journal itself was known to both the informal investors and the entrepreneurs and, since it was seen to be acting as an introductory medium, was considered to be the co-ordinating party in the Faith-Based Trust relationships under examination (see above). VCR is the leading national informal investor introduction service in the UK, with a subscriber base of over 600 (mid 1995), most of whom are informal investors. It produces a monthly publication in magazine style format which features several articles (typically five to six pages long) on businesses seeking equity capital. The articles are written by VCR staff following a lengthy meeting with the entrepreneur (typically three to five hours). They follow a fairly set pattern: resumes for the key entrepreneurs with photographs, a history of the business, a description of the product/service, an analysis of the market and competition, financial data, a suggested financial structure and a contact address for the entrepreneur, with the content of the article relying primarily on the information provided by the entrepreneur (Cary 1995). The respondents were asked to read the opportunities in the same way that they would normally read an investment proposal but to verbalise their thoughts as they did so. The instruction was to say out loud whatever thoughts came into their mind. Respondents were not required to provide explanations or verbal description (Ericsson and Simon 1993). Producing such verbalised reports is found not to change the course and structure of the cognitive process (Ericsson and Simon 1980). The verbalisations were tape recorded and later transcribed and content analysed using a coded system devised for the study (see 'Data Analysis' below).

The reason for using VCR articles rather than actual business plans was to ensure that the investors in the study concentrated on the content of the investment proposals rather than being influenced by the presentation. Specifically, the style and format used by VCR - an approach that has been tried and tested since its formation in 1978 - minimises the possibility that investor reaction will be influenced by poor presentation. With the growth in the number of business introduction services in the UK (Mason and Harrison 1996c) this form of third party preparation of a business plan is becoming an increasingly common way in which informal investors receive information on investment opportunities; it therefore represents a legitimate way of accessing the decision situation in question.

## *The Investment Opportunities*

The investment opportunities were selected on the basis of their design content. In addition, based on what is known about the 'typical' informal investor's investment preferences (Mason and Harrison 1994; 1996a), opportunities were also required to have a general appeal to potential investors. This study is based on all three of the opportunities used in the Mason and Rogers (1996) study. The first opportunity concerned a company seeking £100,000 in exchange for 20% of the equity to finance the marketing of a rowing training machine using a patented water flywheel to simulate resistance during the rowing stroke. The second opportunity respondents were asked to consider concerned a company seeking £50,000 in exchange for between 8% and 20% of the equity to exploit a new, modular exhibition system that it had developed which was claimed to be suitable for a range of market sectors, easy to self-assemble, stable in use and with a range of colours and finishes available rendering a custom-made appearance. The two entrepreneurs claimed to have substantial design experience, and the company had its own in-house design facilities. The third opportunity concerned a company seeking £68,000 in return for 41% of the equity to market traditional high quality cast or stone signs, custom-built to order by a sub-contractor, to golf courses and the commercial sector. In each case, equity was being sought to increase marketing and product development expenditure.

## **THE DATA**

The data used for the third stage study were originally collected by Mason and Rogers (1996) for a study which examined the decision-making process of informal investors. Data analysis was conducted in an identical way to that adopted in Dibben, Harrison and Mason (1998; 1996), and in a similar way to that in Mason and Rogers (1996), in that the verbatim transcriptions of each interview were firstly coded according to statement type, using a modified version of the classification used by Zacharakis and Meyer (1995), to indicate the investors' underlying cognitive processes (Table 3 below). For ease and consistency of analysis, and to allow comparisons between studies, this codification was adopted from the earlier study (Mason and Rogers, 1995). The transcripts were then secondly coded, and

the codification checked by a third party for consistency, according to evaluation criteria to indicate which factors are most important in determining the likelihood of co-operative behaviour (i.e. a decision to pursue an initial investment). With regard specifically to those criteria concerned with trust, Faith-Based Trust criteria were used, as derived from the Theoretical Model of Situational Trust Types, instead of the Swift Trust criteria of the previous study, as derived from the Lewicki and Bunker typology (see Chapter III for a discussion). The Co-operation criteria were kept identical to those used in the earlier study (Dibben, Harrison and Mason, 1998; 1996), having being derived originally from the Model of Co-operation proposed in Chapter V, and including the added criteria entitled 'Co-ordinator Judgement' to assess perceptions of competence of the co-ordinator (see Table 2 below).

The nature of the trust and co-operation criteria, however, was such that it became clear that an individual's perception of, for example, competence, often evolved over the course of a sentence or, on occasion, two or three sentences. Coding of individual phrases as thought units (as was the case in Mason and Rogers, 1995) therefore made little sense, since this did not allow the investor's evolving perception of competence to be captured. It follows that it was often necessary to allow complete sentences and groups of concurrent sentences to be coded as one thought unit (c.f. Ericsson and Simon, 1983). Where a number of different cognitive processes were involved in the evolution of the investor's perception, either the cognitive process encompassing the 'conclusion' of the sentence/group of sentences, or the most frequent cognitive process occurring during the evolution was adopted, as appropriate. This is in contrast to the earlier study (Mason and Rogers, 1995), in which it was possible to code each phrase separately. In addition, the nature of the criteria was such that occasionally the investor's perception of a number of the criteria evolved during the same sentence/group of sentences. Rather than restrict the coding to one criteria per thought unit, therefore, it was decided to allow the same thought unit to contribute to a number of criteria simultaneously, such that one thought unit was often deemed to indicate, for example, Dependence-Based Trust (e.g. via intimations of difference between individuals and a lack of shared knowledge of the product market situation) and Competence (e.g. via comments regarding, as an example, market analysis).

**Table 2.** Classification of thought segments in the protocols: evaluation criteria.

(To be used in conjunction with 'statement type classification' [Table 3] )

<i>'Faith-Based Trust' Criteria</i>	(c.f. Dibben, Harrison and Mason, 1998; 1996, and situational trust requirements proposed in Ch.III).
	<i>Description</i>
1. Dependence-Based Trust	Trust which is formed between individuals on the basis of what each sees s/he can get out of the relationship. Characterised by intimations of <b>difference</b> between individuals, and a lack of shared knowledge of the product/market situation.
2. CSQ Reliance-Based Trust	Trust which is formed between individuals on the basis of shared understanding of the product/market situation. Characterised by intimations of <b>agreement</b> between the individuals, leading to perceptions of predictability and thus reductions of uncertainty.
3. Familiarity Reliance-Based Trust between experience,	Trust which is formed between individuals on the basis of similar personal background or prior knowledge of the person in different situations. Characterised by intimations of <b>understanding</b> the individuals regarding personal background or leading to perceptions of predictability and thus reductions of uncertainty.
4. Confidence-Based Trust	Trust which is formed between individuals with a high degree of identification with the wishes/intentions of the other party. Characterised by strong agreement between the individuals, and intimations of the <b>mutual sharing of values</b> .
<i>'Faith-Based Co-operation' Criteria</i> proposed in	(cf. Marsh, 1995 and co-operation criteria Chapter V)
	<i>Description</i>
a. Utility	An individual's perception of the <b>potential economic value</b> of a situation.
b. Importance	An individual's perception of the <b>potential non-economic value</b> of a situation.
c. Risk	An individual's perception of the <b>potential loss</b> from a situation.
d. Competence	An individual's perception of the <b>professional ability</b> of another individual. Characterised by comments regarding (eg) market analysis, data availability, quality etc.
e. Co-ordinator Judgement	An individual's perception of the <b>co-ordinating party's ability</b> to select potentially successful opportunities for investment.



**Table 3. Classification of Thought Segments in the Protocols: Statement Type (source: Mason and Rogers, 1996).**

<i>description information</i>	non-evaluative statement consisting of verbatim or paraphrased quotation of presented in the plan
<i>recall</i>	non-evaluative information based on past experience
<i>preconception</i>	judgmental statement based on previous experience/background knowledge
<i>inference</i>	statement which involves a judgement on some part of the plan
<i>question</i>	statement which seeks further information
<i>action information)</i>	statement of intention or action to be performed (e.g. to search for a source of
<i>comment</i>	uncodable or irrelevant statement

(modified from Zacharakis and Meyer, 1995)

The adoption of the protocol codification (i.e. whether a speech unit was classified as, for example, a question, a preconception or an inference - see Table 3) from the earlier studies of Mason and Rogers (1995) and Dibben, Harrison and Mason (1998; 1996) provided a reliably consistent element in the overall coding procedure across studies which were otherwise effectively unrelated, due to their use of different theories and different amounts of data, thereby allowing the opportunity for the comparative analysis that formed part of the third stage study's aims. Lastly, it may be seen from this discussion that the research approach adopted in this third stage study was in keeping with both the first and second stage study approaches since, like the previous two studies, it also implicitly relied on the Inter-subjective and hence broadly interpretivist position adopted throughout the rest of the thesis (see Chapter II).

#### *Data Interpretation*

As with the first stage study, therefore, the nature of trust as a subjective, situation-specific phenomenon, requires any study of it to accept the notion of multiple perspectives and therefore multiple

interpretations of data. Although the interpretation presented here is the author's, it was intentionally 'protected' from bias by a) strict adherence to the trust criteria under study and b) a research process designed specifically to elicit data that would be relatively unaffected by *apriori* analysis during the field studies themselves; the need to avoid analysis until after all interviews were completed was paramount in order to achieve, as far as is possible, the required 'subjective objectivity'. This was achieved in this case by the use of data which was collected for a purpose other than a specific study of trust (cf. the first stage study, which achieved the same effect by adopting a grounded approach to the data gathering - see Chapter IV). Again, as with the first stage study, data interpretation involved study of transcribed interviews and cross comparison with the trust criteria derived from the Theoretical Model of Situational Trust Types, to determine which of the trust criteria applied to the relationship under discussion. For this study, however, criteria adopted from the Model of Co-operation were also used in interpretation, as was explained above. The codification of the co-operation criteria followed the procedure of qualitative categorisation adopted by Dibben, Marsh and Scott (1996) who, recognising the inherently subjective nature of the phenomena under study, developed a categorisation of trust "based on [their] experiences, and Marsh (1995) representing the [phenomena] in terms of labels: High, Medium, Low" (1996:10).

The rationale behind this categorisation was explained by Dibben, Marsh and Scott (1996) as follows. "The arrival at these values or strata is relatively difficult. Determining why Importance is High in the first place requires a large amount of historical investigation. In this respect, therefore, the study adopts the procedure of observer identification, based on knowledge of the specific situations [see above, and Hammersley and Atkinson, 1995:211]. Most of the measurements used here are in fact adaptive, and change with time. They are not taken, ordinarily, as isolated values. In other words, determinants of the particular phenomena's values are not readily available to the researcher. The determinants of Importance in one situation are most probably not those in another, for they are clearly situation specific. The end result, however, is the same: a particular level of Importance. This is what is important in this study: not how the categorisations have been arrived at, but how they affect the present interpersonal relations between the agents, and their future actions, for any situation. In other words, given a particular level of Importance, Situational Trust, and so on, how do we predict agents might behave?".

With this in mind, the following are transcript extracts as illustrative examples of commonly occurring situational trust types and co-operation criteria occurring in the transcripts, categorised according to the principle adopted by Dibben, Marsh and Scott (1996) and using the Faith-Based Trust and Faith-Based Co-operation criteria given in Table 2). The length of the extracts serve to illustrate how codification of *thought segments* was impossible in this case, since the individuals are 'building arguments' to make judgements, which were then coded.

Evidence of Faith-Based Trust that resembles Dependence Based Trust:

"It can be stored upright apparently [...but] whether people would actually store it - I mean if they were going to use it every day they would leave it down anyway rather than keep putting it away." Mr S

"There's a statement in here that no competitive products possess this aesthetic quality, which gives the water rower an automatic advantage. I mean frankly it doesn't look much better aesthetically than some of the other rowing machines I have seen." Mr B

In both these examples, the informal investors concerned express differences of opinion about the value of the product, indicating a lack of shared (i.e. between the entrepreneur and the informal investor) knowledge/ understanding of the product and the demands of the market. In these cases, therefore, the individuals would be seeking to invest in the business on the basis of what they can get out of the situation, there being little perception of predictability or any reduction in uncertainty in the minds of the informal investors which might determine a different type of trusting relationship.

Evidence of Faith-Based Trust that resembles Familiarity Reliance-Based Trust

"I'm just getting a feel for... the individual and how he's got to where he is and what his opportunities are." Mr Dru

“The background of the [entrepreneur] is important... Young man. Young family. May not be the ideal basis on which to start a company. Having said that my observation is that there is a link between a higher level of personal change and taking a step like starting your own business and it doesn't surprise me to see that he's got a young family and so on, or that he's moved about because, they [are, I] think, quite frequently in all sorts of things you observe.” Dr C

In these examples, the informal investors concerned express the need for and importance of an understanding of the entrepreneurs' personal background or experience in terms of their own previous experiences, leading to perceptions of predictability and thus reductions of uncertainty regarding the investment decision.

Evidence of low utility:

"The expenses are £57,000 and that's why he's making a substantial loss. So the question would be could he get the unit cost down very substantially compared with this? Maybe that is unlikely because out of his total costs of £88,000, £78,000 are components which he presumably buys in... I doubt whether he could halve that cost of components." Mr M

"... you couldn't possibly make [the water rower] in production terms because its manufacturing tolerances [are] so tight, you'd never get the right price." Mr L

In these examples the informal investors are commenting on the expected monetary return on any possible investment, as a result of forming judgements on the product. Both consider the potential economic value of the situation to be low.

Evidence of low importance:

"I'm not really excited about the product, and this doesn't excite me sufficiently to take a minority, dormant style position in it." Mr H

"I'm afraid the same would apply [with rowing machines as signs - another investment opportunity]. I don't have any interest in it..." Mrs A

In these examples, both informal investors comment on the low importance of the investment situation, as they see it. This is expressed through their considering the investment to be of little or no interest to them, indicating it has low potential non-economic value. These extracts also illustrate how certain criteria are more important to certain informal investors than others, since the two people considered here regard potential non-economic value as equally (if not primarily) important as economic value or risk when evaluating an investment opportunity.

Evidence of medium risk:

"Accidentally I'm on the periphery of one of those [rowing machines] and its a pain in the ass."

Mr L

"... but there are quite a lot of established designs which are not as good [which have] already been made in quantity and therefore there's a big vested interest by the established manufacturers." MrM

In these examples, the informal investors use previous experience of other investments to make a judgement about the current investment situation. They indicate some of the problems associated with this situation (borne in part from past experience) and so comment on the potential losses from the situation. However, they are not entirely negative, indicating they do not consider the potential losses to

be high. Rather, they consider them to be bearable (and hence 'medium') risk, and not a complete deterrent to an investment.

Evidence of high risk:

"Oh yes, one of the most expensive components had proved problematic in the States and Mr C was delayed by sub-contractors which indicated it could produce the unit here, which confirms my view that we're going to fiddle around getting machines from the States and upgrading them, changing bits and pieces - again it confirms completely - don't touch it with a barge pole, it's full - it's a can of worms." Mr B1

"See I don't like this stuff. You know, looking for further cost cutting by bringing more stuff in house, that to me is suicidal." Mr B

In comparison with the examples discussed previously relating to a codification of medium risk, the examples here clearly indicate the informal investors' perception of a situation that is high risk. Such are the potential losses that the informal investors will not consider an investment. Again, as with the extracts pertaining to *Importance*, discussed above, these extracts also illustrate how, for some potential investors, certain criteria may take precedence over others in assessing investment opportunities.

Evidence of low perceived competence:

"The ones [rowing machines] I have used, you can actually turn up the heat, you use a rowing machine, you've got a knob on it and it's actually like a brake on the wheel and you can adjust how hard you have to pull to get the wheel going [...] that's a mechanical system, not a fluid system. I don't see what this can do that the other can't do." Mr McD

“His actual CV doesn’t really give the impression that he would make a break through in a new product opportunity like this.” Mr M

In these examples, the informal investors call into question the professional ability of the entrepreneur with regard both to his engineering and his marketing ability, indicating that they have a low perception of the entrepreneur’s competence. Having discussed the data and given examples of the rationale behind its codification, the following section provides an analysis of the data in terms of the results of the codification and a comparative discussion.

## **DATA ANALYSIS AND FINDINGS**

As has already been discussed, the purpose of the third stage study was to build on the findings of the first and second stage studies to explore the way in which Faith-Based Trust and Faith-Based Co-operation might develop during the course of one interaction in a small firm investment decision situation. Having coded the data it was then collated by investment opportunity and by trust and co-operation criteria. This was in order to come to an understanding of the prevalence of different types of trust and co-operation criteria in the three opportunities under study, relate the criteria to different statement types to explore the thought patterns that might lead to them, compare the incidence of trust and co-operation criteria across the three investment proposals to explore what situational factors might lead to them, cross compare these findings with the findings of the research of Dibben, Harrison and Mason (1998; 1996) with regard to the Rowing Machine opportunity, and thereby further assess the applicability of the criteria as predictors of trust and co-operative behaviour development. The results of these analyses are presented in Table 4 (Rowing Machines), Table 5 (Cast Signs), Table 6 (Exhibition Stands) and Table 7 (Rowing Machines using Lewicki and Bunker's model of situational trust types, adapted from Dibben, Harrison and Mason, 1998; 1996)<sup>6</sup>, given separately overleaf. This section

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<sup>6</sup> It should be noted that, while the number of informal investors examined in this study (19) is the same as that of Mason and Rogers (1996), the research which is collated in the tables is based on 27 transcripts as opposed to their original 30. This is because at the time of the analysis presented in this chapter, 3 transcripts were not available. Since no attempt is made in this third stage study research to draw comparisons with the study of Mason and Rogers (1996), the fact that three transcripts were not used does not affect the veracity of a study which, given such a small sample size regardless of whether

Table 4 Rowing									
Verbal Machines									
Protocol									
Frequency									
	descr.	recall	precon.	infer.	quest.	action	comm.	TOTAL	(%)
DBT			22	23	1		2	48	23.88%
CSQ RBT		1	2					3	1.49%
FAM RBT		1		1				2	1.00%
CBT								0	0.00%
U low			13	6				19	9.45%
U med			5	1				6	2.99%
U high								0	0.00%
I low			3	1			2	6	2.99%
I med			1	1			1	3	1.49%
I high								0	0.00%
R low			1	1				2	1.00%
R med			7	2			1	10	4.98%
R high			10	6	1		1	18	8.96%
C low	1	1	7	25	11	1	5	51	25.37%
C med			1	5				6	2.99%
C high								0	0.00%
CJ low		2	3	3	7	1	5	21	10.45%
CJ med							1	1	0.50%
CJ high			2	1			2	5	2.49%
SC low								0	0.00%
SC med								0	0.00%
SC high								0	0.00%
TOTAL	1	5	77	76	20	2	20	201	
(%)	0.50%	2.49%	38.31%	37.81%	9.95%	1.00%	9.95%	100.00%	
note:									
based on									
ten									
investors	average number of criteria per investor =								20

the sample consists of 27 or 30 transcripts, can in any case only provide exploratory illustrations of the applicability of the models used to interpret the data. The comparison drawn between the study of Dibben, Harrison and Mason (1998; 1996) and the third stage study is feasible, however, since the 10 transcripts relating to the investment opportunity concerned were provided for both studies.



<u>Table 5</u>	Cast								
<u>Verbal</u>	Signs								
<u>Protocol</u>									
<u>Frequency</u>									
	descr.	recall	precon.	infer.	quest.	action	comm.	TOTAL	(%)
DBT	1	1	5	26	1		2	36	22.36%
CSQ RBT			1	2				3	1.86%
FAM RBT			1	2		1		4	2.48%
CBT								0	0.00%
U low		1	11	16	1			29	18.01%
U med			1	4				5	3.11%
U high				1				1	0.62%
I low		1	1	5		1	2	10	6.21%
I med								0	0.00%
I high							1	1	0.62%
R low	1		1					2	1.24%
R med			3	11	1			15	9.32%
R high			1	4				5	3.11%
C low			5	17	2			24	14.91%
C med			3	10				13	8.07%
C high								0	0.00%
CJ low				3	1		1	5	3.11%
CJ med								0	0.00%
CJ high				1				1	0.62%
SC low			2				4	6	3.73%
SC med				1				1	0.62%
SC high								0	0.00%
TOTAL	2	3	35	103	6	2	10	161	
(%)	1.24%	1.86%	21.74%	63.98%	3.73%	1.24%	6.21%	100.00%	
note:									
based on									
nine									
investors								average number of criteria per investor =	18

Table 6									
Exhibition									
Verbal									
Stands									
Protocol									
Frequency									
	descr.	recall	precon.	infer.	quest.	action	comm.	TOTAL	(%)
DBT		1	2	15	4		1	23	11.22%
CSQ RBT		2	1	6				9	4.39%
FAM RBT								0	0.00%
CBT								0	0.00%
U low	2		11	13		1	1	28	13.66%
U med	3		8	16				27	13.17%
U high								0	0.00%
I low			2	2				4	1.95%
I med			3	5	1			9	4.39%
I high								0	0.00%
R low			1	3				4	1.95%
R med	1		4	10	1			16	7.80%
R high			6	8				14	6.83%
C low			2	13	4		2	21	10.24%
C med				25			1	26	12.68%
C high				3				3	1.46%
CJ low				6	2		2	10	4.88%
CJ med								0	0.00%
CJ high				1				1	0.49%
SC low			1	2			2	5	2.44%
SC med		3		1			1	5	2.44%
SC high								0	0.00%
TOTAL	6	6	41	129	12	1	10	205	
(%)	2.93%	2.93%	20.00%	62.93%	5.85%	0.49%	4.88%	100.00%	
Note:									
Based on									
eight									
investors				average number of criteria per investor =					26

Table 7      Rowing      (source: from									
Verbal      Machines      Dikken,									
Protocol      Harrsion &									
Frequency      Mason)									
	descr.	recall	precon.	infer.	quest.	action	comm.	TOTAL	(%)
CBT			22	23	1		2	48	24.00%
KBT		1	2	1				4	2.00%
IBT								0	0.00%
U low			13	6				19	9.50%
U med			5	1				6	3.00%
U high								0	0.00%
I low			3	1			2	6	3.00%
I med			1	1			1	3	1.50%
I high								0	0.00%
R low			1	1				2	1.00%
R med			7	2			1	10	5.00%
R high			10	6	1		1	18	9.00%
C low	1	1	7	25	11	1	5	51	25.50%
C med			1	5				6	3.00%
C high								0	0.00%
CJ low		2	3	3	7	1	5	21	10.50%
CJ med							1	1	0.50%
CJ high			2	1			2	5	2.50%
TOTAL	1	4	77	76	20	2	20	200	
(%)	0.50%	2.00%	38.50%	38.00%	10.00%	1.00%	10.00%	100.00%	
note:									
based on									
ten									
investors	average number of criteria per investor =								20

provides a discussion of the results, before conclusions are drawn in the form of indicative answers to the eleven research questions listed above, and areas for further research suggested.

### *Results*

It may be seen from Table 4 that the most commonly occurring trust type identified from the transcripts of investors considering the rowing machine investment proposal was that Faith Based Trust type identifiable by its resemblance to Dependence-Based Trust - DBT, signalled by intimations of differences of opinion as expressed by the informal investor between the entrepreneur and the informal investor (24% of the criteria identified in the transcript), and was seen to be most often identified in statements of inference concerning the investment opportunity and statements of preconception about what the informal investor felt about the investment based on his prior knowledge of the market or of a similar product (see Table 3). The next most commonly occurring Faith-Based Trusts were that resembling CSQ Reliance-Based Trust - CSQ RBT as indicated by intimations of agreement as expressed by the informal investor between the informal investor and the entrepreneur with regard to the product/market situation (1.5% occurrence), and then that resembling Familiarity Reliance-Based Trust - FAM RBT as indicated by intimations of understanding as expressed by the informal investor regarding each other's background or experience (1% occurrence). No indications of any Faith-Based Trust resembling Confidence-Based Trust (CBT) were found. With regard to Faith-Based Co-operation criteria, the most frequently occurring criterion identified from the transcripts was low competence of the entrepreneur (C low) as perceived by the informal investor (25%) and was seen to be most often identified in statements of inference. This was followed by low perceived competence of the journal (CJ low) - the co-ordinating party (10%) most often identified in statements questioning the material or asking for information not provided in the set-format proposal, and low perceived utility of the opportunity (U low) most often identified in statements of preconception (9%). Lastly, informal investors also often voiced concerns regarding the high risk (R high) they felt the opportunity represented (9%), while very little consideration appeared to be being given to the importance of the opportunity, or otherwise, in their deliberations.

Turning now to Tables 5 and 6, it may be seen that the most commonly occurring Faith-Based Trust sub-type identified from the transcripts of investors considering the cast signs investment opportunity (Table 5) was also DBT (22%), followed by FAM RBT (2.5%) and CSQ RBT (2%) with, again, no indications of CBT. In each case, intimations of trust were most frequently identified in statements of inference. With regard to the Faith-Based Co-operation, the most commonly occurring criteria were with regard to perceptions of low utility of the opportunity and low competence of the entrepreneur, U low (18%) and C low (15%), followed by perceptions of medium risk relating to the opportunity (R med: 9%), medium competence of the entrepreneur (C med: 8%) and low perceived importance by the informal investor of the opportunity (I low: 6%). The most commonly occurring Faith-Based Trust sub-type identified from the transcripts of investors considering the exhibition stands investment opportunity, meanwhile, was again DBT (11%), followed by CSQ RBT (4%), with no indications of either FAM RBT or CBT and, as with the cast sign opportunity, the vast majority of trust statements identified were statements of inference. Unlike the other investment opportunities, however, in which trust statements outnumbered statements relating to any single Faith-Based Co-operation criteria, transcripts relating to the exhibition stand opportunity contained more statements relating to the perceived low utility of the investment (U low: 13.5%) and medium utility of the investment. This was followed by the informal investors' perceptions of medium competence (C med: 12.5%) and low competence (C low: 10%) regarding the entrepreneur concerned and perceptions of the opportunity as medium risk (R med: 8%) and high risk (7%). Again, as in the rowing machine opportunity, comparatively little consideration appeared to be being given to the importance, or otherwise, of the exhibition stands opportunity by the informal investors.

### *Discussion*

Having highlighted the apparently most important results of the study, in terms of the criteria determining the type of Faith-Based Trust and the co-operation thresholds of the informal investors for each investment, this section will now discuss the results in more detail, with the aim of unpacking

underlying factors that might be determining the results both in each opportunity, and comparatively across all opportunities, in terms of firstly trust and secondly co-operation criteria. With regard first, however, to the accuracy of the codification, it was mentioned above that these were cross checked by a third party for discrepancy and uniformity of codification. Some further indication of uniformity across investment opportunities of the codification may be gained by consideration of the average number of criteria coded (i.e. trust and co-operation) per investor. It was calculated that this was 18 criteria per investor for the cast sign opportunity (Table 5), 20 per investor for the rowing machine opportunity (Table 4), and 26 per investor for the exhibition stand opportunity (Table 6). The high average displayed in the exhibition stand opportunity comes about as a result of the above-average length of the transcript of the informal investor Mr F, who accounted for 47% of all codifications relating to that investment opportunity. Removing Mr F from the sample gives an average number of criteria per investor of 17 for that opportunity. Given a total number of transcripts, excluding Mr F, of 26 and a total number of coded criteria of 566 (see Tables 4,5, and 6), and with an average number of coded criteria per transcript for the three investments of 17, 18 and 20, it is therefore felt that the criteria were uniformly applied across the investments. Lastly, it follows from this that, whilst frequency of mention is not an exact measure of importance, merely a useful proxy (Mason and Rogers, 1997), the codification may be considered to be generally representative of the importance of trust and co-operation in the thinking of the informal investors.

### trust

Bearing this mind, the fact that the codifications cluster similarly by statement type (Table 3) in all three opportunities (providing yet further evidence of the uniformity of codification) with the largest number coming as inference statements and the second largest number as perception statements (See Tables 4, 5, and 6), confirms that the majority of trust (and co-operation criteria) judgements are being made as a result primarily of inference from the information provided in the investment opportunity, and as a result secondly of consideration of the investor's prior knowledge or experience. From the understanding of trust derived in Chapter III, this is as one might expect from a phenomenon that arises

as a result of the individual concerned "comparing, finding again and designating" (Stack, 1978:82) the situational cues received from the environment as perceived by that individual. In addition, that the majority of statements across all three opportunities relating to trust resembled Dependence-Based Trust is not surprising, given that the situations concern the development of Faith-Based Trust, where informal investors were asked to express an opinion and reach a decision, under a time pressure imposed by the requirements of the investors themselves (i.e. a 'crisis' situation), on opportunities which they were seeing for the first time via a co-ordinating third party (the VCR) known to both the entrepreneur and the informal investor. This is particularly so when one also takes into account the fact that Dependence-Based Trust is the most common form of trust in external business relationships (see Chapter IV, Tables 1 and 2, for supporting evidence from the first stage study). It is interesting to note, however, that the development of DBT has come about as a result of some detailed consideration of the opportunity concerned, as indicated by the overriding prevalence of inference statements associated with its development. The large number of preconception statements associated with DBT development in the rowing machine opportunity (Table 4) may be accounted for by the acknowledged poor quality of this investment proposal, when compared with the other two (pers. comm. Colin Mason 26/3/97), which led to investors having to rely more on their own prior knowledge of the market and similar products when making trust judgements. Further evidence for this argument may be found in the fact that only seven of the fifty nine statements relating to DBT from the business angles considering the other two opportunities were statements of preconception, while forty one were statements of inference.

The use of a larger data set therefore enables us to reconsider the findings of Dibben, Harrison and Mason (1998; 1996) with regard to trust. As a result of almost half of the trust statements being associated with preconception and not inference (see Table 7), it was suggested in the earlier research that informal investors were bringing their preconceptions to bear in the development of trust in such a way as to often render it impossible for the entrepreneur to influence trust development through such information as he might provide in the VCR article. This was because a preconception is such that it is made, critically, *prior to* looking at the investment proposal (see Table 3). While this may be true to the extent that preconceptions are considered as part of the inference-making process, and thereby enabling

the final inference to be affected by (possibly) incorrect preconceptions, the findings of the wider study presented here indicate that trust development, being a judgement (see Chapter I; also Dibben, Marsh and Scott, 1996 and Hertzberg, 1988), formed mainly as a result of inference from the material gathered from the investment proposal, is primarily open to influence by the entrepreneur even during the first situational domain in which Faith-Based Trust developed after only a brief review of the opportunity (i.e. between five and twenty five minutes; Mason and Rogers, 1996) dominates.

Turning now to other less common sub-types, the absence of any indication of CBT, as with the predominance of DBT, is to be expected due to the nature of the situational domain and the resulting development of an initial Faith-Based Trust where the informal investors were looking for opportunities to reject proposals as business opportunities, rather than looking to develop the meaningful interpersonal relations that would be required for the mutual sharing of values associated with CBT. Such trust development, as was pointed out in Dibben, Harrison and Mason (1998; 1996) be extremely irregular in the first situation domain, but would be expected to develop in such cases as investments were made and the relationships developed over a lengthy period, as was the case with the entrepreneur AB and his informal investor in the first stage study (see extracts 49 and 14 above, and Chapter IV). With regard to CSQ RBT and FAM RBT, the low proportion of these 'higher' situational trust sub-types when compared with DBT is again to be expected due to the nature of the decision situation concerned, revolving around the formation of a relationship with a party external to the business. This argument is supported by the findings of the first stage study which indicated that while both Faith-Based Trust and Dependence-Based Trust existed entirely in external relationships, less than one quarter of external relationships involved either Familiarity Reliance-Based Trust or CSQ Reliance-Based Trust (see Chapter IV, Table 1). In addition, the prevalence of CSQ RBT (15 intimations) over FAM RBT (6 intimations), where they do occur is also to be expected, since an agreement regarding the business is likely to be more forthcoming from an investment proposal geared at primarily discussing the business than is an understanding of the entrepreneur himself. The predominance of CSQ RBT over FAM RBT is also supported by the findings from the first stage study, where CSQ Reliance-Based Trust occur more frequently in external relationships than did Familiarity Reliance-Based Trust, in spite of the fact that



Familiarity Reliance-Based Trust relationships were more common overall than CSQ Reliance-Based Trust relationships (see Chapter IV, Table 1).

Whilst this discussion has so far revealed no contradictory evidence regarding either the prevalence of the various trust sub-types identified in the third stage study, or the nature of their development, further consideration of specific occurrences of criteria denoting Faith-Based Trust in the transcripts is warranted since, as has already been mentioned, frequency of occurrence of criteria can only be taken as a generalisable proxy of importance, and it is therefore necessary to examine instances where this generalisation may not apply. This is in order to further explore the role and effect of trust development in determining the outcome of the decision situation under discussion. This requires examination in particular of instances of acceptance to proceed with the proposal beyond the first decision situation domain, since it might be expected that such co-operative behaviour would require 'higher' trust in order to overcome co-operation thresholds, and that the occurrence and importance of sub-trust types other than DBT would therefore be highlighted in such acceptance situations<sup>7</sup>. Acceptance to proceed with the investment opportunity beyond the first situational domain occurred in three cases, all of which concerned the exhibition stand opportunity. In two of these, no intimation of DBT was found, but rather only CSQ RBT, leading to the suspicion that in these cases 'higher' trust levels were responsible for the co-operative behaviour. This therefore provides some evidence for the suggestion made in Dibben, Harrison and Mason that "a positive decision will be made by investors who give evidence of relying more on knowledge-based trust [i.e. CSQ RBT] which, in the swift trust [i.e. Faith-Based Trust] situation will be reflected in the identification of similarities and commonalities... *even in the absence of personal knowledge and a history of interaction*" (1998, my emphasis). In the other case, no intimation of CSQ RBT was detected, leading to the suspicion that in this case the co-operation threshold was sufficiently low as to be overcome by DBT (see 'accessing the process of trust and co-operation threshold development' below).

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<sup>7</sup> The other possibility, namely that the informal investor's co-operation threshold is lowered as a result of different perceptions of the various co-operation criteria on the part of the informal investor concerned, thereby allowing DBT to overcome it, is considered in detail below, along with other issues relating to the co-operation criteria.

Furthermore, in the latter two cases where CSQ RBT was the only trust intimated, there was one such intimation in one and two in the other, providing evidence for the argument for different identifiable Faith-Based Trust sub-types that *resemble* other more resilient situational trusts. This may be explained by the lack of occurrence of intimations of trust beyond the first page of each transcript (i.e. approximately the first two minutes of an angel's assessment of the opportunity) indicating that the question of trust, once answered, is no longer arising in the thoughts of the two informal investors concerned and the trust they have in the entrepreneur is taken for granted for the purposes of the decision situation at hand. This resembles trusts other than Dependence-Based Trust (such as CSQ Reliance-Based Trust, Familiarity Reliance-Based Trust and Confidence-Based Trust) which are in part characterised by their resilience and stability (see Chapter III). In contrast, an analysis of transcripts where DBT is the dominant trust sub-type intimated the average number of occurrences is 5.6 per transcript, indicating the informal investors are continuing to consider the issue of trust throughout their analysis of the opportunities concerned.

Turning now to consider the role and effect of FAM RBT, an initial review of the results shows a very low number of occurrences (6 in total), accounting for no more than 2.5% of the total number of criteria per opportunity. This might at first imply that the role of FAM RBT in the situation domain under consideration is negligible especially since, as with CSQ RBT, all but one of the intimations occur within the first two pages (i.e. approximately the first four minutes of the assessment); a period of time in which it could reasonably be argued that those informal investors with a higher propensity for trust might be expected to specifically look for information indicating the entrepreneur's trustworthiness. However, a more in-depth analysis reveals *two points worthy of mention. First, a comparison of the findings from the earlier study using the trust typology developed by Lewicki and Bunker (1995) in which no distinction is drawn between knowledge of the individual and knowledge of the business reveals only two instances of FAM RBT, one of these is the result of a change from KBT (Knowledge-Based Trust resembling Faith-Based Trust), and the other is identified afresh from the transcript, having not been coded in the previous study. While the efficacy of the distinction between CSQ Reliance-Based Trust and Familiarity Reliance-Based Trust may not be determined in and of itself by one re-codification*

since, in all other cases, the KBTs of the earlier study were re-coded as CSQ RBT for this study, the fact that a new part of a transcript was able to be meaningfully encoded further points to the utility of the distinction.

Second, while instances of FAM RBT in the transcripts are relatively few, the potential importance of this sub-type in determining co-operative behaviour may be gained from transcripts in which DBT was predominant, but in which informal investors explicitly sought more information on the entrepreneur and his background. Such cases would therefore be indicative of 'need for FAM RBT', as (from the findings of the second stage study relating to requirements for trust development discussed in Chapter VI; also Low and Srivatsan, 1995) one might expect that were FAM RBT achievable through the provision of sufficient positive information in such cases as entrepreneurs sought it, then the likelihood would be increased of co-operative behaviour as an outcome in those cases. Statements relating to need for FAM RBT were identified by an expression relating to insufficient information linked specifically to a discussion of personal background of the entrepreneur, thus paralleling the identification criteria established in Table 2 for FAM RBT. The following provide examples of such statements coded as 'need for FAM RBT and, as with the examples of other criteria given previously, the length of the transcripts again serve to illustrate how codification of thought segments was impossible, since the informal investors are 'building arguments' to make judgements (or explicit and implicit requests in this case), which were then coded.

"I would contact them and go and see them and I'd put a lot of weight on what I thought of the guys. That at the end of the day is much the most important thing." Mr R

"We don't know the people. That's the first obstacle." Mr F

"I don't know anything about his parents from reading about the man, and I always think that's quite a good indicator. Are his parents in business? What's their background? I would like to

know about that... I don't know the person. So, you know, I'm not that warmed. It doesn't look like such a wonderful opportunity." Dr C

"If he was married and left France, how does it affect his marital life, does he drop the lady who's French and divorce her? Do you follow? [This is t]he scenario which is very important. Why? Because it signposts the man and we're backing the man, everybody will tell you. So I'd like to know a bit more about that side." Mr Bl

In each of these examples, the informal investors express their need for more information regarding the background of the entrepreneurs whose proposals they are reviewing, in terms of personal issues which the informal investors consider essential prerequisites prior to their being willing to consider making investments. The fact that each of the informal investors make explicit the fact that a lack of understanding regarding the background of the entrepreneurs is a barrier to investment gives an impression of the importance of the development of sufficient FAM RBT in determining co-operative behaviour. Some indication of the prevalence of 'need for FAM RBT' in the transcripts is given in Table 8 below. While the average number of intimations is only 2 per transcript, the fact that 'need for FAM RBT' was identified only in transcripts where the informal investor did not accept the proposal (i.e. did not exhibit co-operative behaviour), combined with the above mentioned fact that 'need for FAM RBT' is cited as a significant barrier to investment, leads to the suggestion that were such information available then co-operative behaviour may have ensued as a result of FAM RBT being potentially sufficient to overcome the informal investors' co-operation thresholds (see also 'co-operation criteria' below). This is particularly so, given that explicit vocalisation of 'need for FAM RBT' indicates that the informal investors appear to be *actively seeking* information in the proposals that would lead to their development of FAM RBT in the entrepreneurs in order to increase their trust sufficiently for them to proceed further with the investment beyond the stage one situational domain.

**Table 8.** Frequency of Need for FAM RBT by Opportunity.

Acceptance?	Rowing Machines		Cast Signs		Exhibition Stands		Total
	No	Yes	No	Yes	No	Yes	
Need for FAM RBT	1	n/a	7	n/a	6	0	14
No. of transcripts	1	n/a	2	n/a	3	0	6

Lastly, with regard to specific investment opportunities, the fact that only one intimation of ‘need for FAM RBT’ was identified in the rowing machine investment proposal may be put down, again, to the poor quality of that particular investment proposal when compared with the other two proposals. This implies that the degree of importance of FAM RBT in determining co-operative behaviour may vary, according to the quality of the proposal under consideration and the consequent development of other sub-types of Faith-Based Trust, which may be explained as follows. Where no agreement regarding business issues is apparent (i.e. where CSQ RBT is not present) then, from its occurrence in the transcripts, FAM RBT has little or no bearing on proceedings, but where there is some agreement regarding business issues (i.e. where CSQ RBT is intimated but where DBT predominates), lack of information about the entrepreneur may be a significant barrier to trust development beyond DBT, depending on the opportunity and individual informal investor concerned. This, in turn, adds further weight to the argument proposed in Chapter III and shown empirically in Chapters IV and VI that, as one might expect from a business interaction, CSQ RBT is more significant in determining co-operative behaviour than FAM RBT and, thus, the legitimacy of the distinction between knowledge of the individual and knowledge of the situation as proposed in the Theoretical Model of Situational Trust Development (c.f. Lewicki and Bunker, 1995) is further illustrated.

co-operation criteria

Turning now to consider the results regarding co-operation criteria, the use in the third stage study of the same Model of Co-operation developed in Chapter V, and its constituent criteria, as in the

earlier study (Dibben, Harrison and Mason, 1988), enables a re-evaluation of the findings from the rowing machine opportunity (which, by implication, are identical in both studies) in the light of the analysis of the other two opportunities examined in addition here. To firstly restate and expand on the points made by Dibben, Harrison and Mason (1998; 1996) regarding the development of co-operation thresholds concerning all three opportunities, over three quarters of the thought segments coded in this analysis relate to the five dimensions of Faith Based Co-operation proposed above - utility, importance, risk, competence, and co-ordinator judgement. For each of these criteria, the thought segments were classified into three categories - high, medium and low - to reflect the specific context of the investors' comments. Based on the results in Tables 4, 5 and 6, two sets of conclusions can firstly be drawn that reiterate the findings presented in Dibben, Harrison and Mason (1998; 1996). First, the transcripts are dominated by comments about the low perceived competence (C low) of the entrepreneur/management team, characterised by comment about market analysis, data availability and the quality of the proposal among others - these represent 25% of all thought segments coded and one third of the comments relating to Faith Based Co-operation criteria. A similar, if lower proportion of C low intimations may be found with regard to the cast sign opportunity (15%; Table 5) and with the exhibition stand opportunity (10%; Table 6), which is not only consistent with the role of ability and expertise as determinants of trust and co-operative behaviour (Good 1990; Mayer et al 1995), but also with the importance attached to entrepreneur/management team issues in the informal investment literature (Mason and Harrison 1996b).

Second, negative comments about risk interpreted, depending on their severity, as either high or medium (R high or R med; see 'Evidence of high risk' and 'Evidence of medium risk' above) in the sense of the possibility of suffering harm or loss or of being exposed to this, account for over 12% of the thought segments coded, and for at least 17% of the Faith Based Co-operation comments in particular across all three opportunities<sup>8</sup>. Thus, it is reasonable to suggest that an informal investor's perception of

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<sup>8</sup> It will be remembered that the negative nature of risk, being construed as the potential economic *loss* as construed in the Model of Co-operation is such that measures of risk have the opposite affect on the co-operation threshold when compared with the other co-operation criteria. That is, for example, whereas 'R high' implies high co-operation threshold, 'C high', 'U high' and 'I high' all imply low co-operation threshold, and whereas 'R low' implies low co-operation threshold, 'C low', 'U low' and 'I

the potential loss from the investment situation plays an important part in determining his co-operation threshold for that situation. It follows that significant intimations, as found across all the opportunities in the third stage study, of both C low and R high (which accounted for two-thirds of risk related statements in both the rowing machine opportunity and the exhibition stand opportunity [Tables 4 and 5], and one quarter of risk related statements in the cast sign opportunity [Table 6]), combined with R med (which accounted for just under one third, just under two thirds and just under one half of risk related statements in the three opportunities respectively [Tables 4, 5, and 6]) would therefore generate high co-operation thresholds. According to the Model of Co-operation proposed in Chapter V, where the DBT sub-type of Faith-Based Trust predominates, therefore, it would be expected that co-operative behaviour would not be exhibited for these situations (i.e. no investment in the opportunities) and, as far as the informal investors reviewing the three opportunities under consideration here are concerned, this is the case<sup>9</sup>. In the specific instance of the cast signs and the rowing machines, this is especially so, considering also both the consistent perception among the informal investors of the low utility (U low) of the opportunities in terms of potential economic profit to be gained, and the fact that any mention of potential non-economic value perceived in the opportunity (i.e. Importance) tended to indicate the informal investors regarded it as of low potential (I low), since such intimations would add to the likelihood of a high co-operation threshold. That all the informal investors rejected the cast sign and rowing machine opportunities is, therefore, consistent with the above explanations of the importance, role and effect of Risk and Competence, as well as the general accuracy of the Model of Co-operation as an analytically predictive framework.

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low' all imply high co-operation threshold. For a discussion of the theoretical propositions relating to the co-operation criteria see Chapter V.

<sup>9</sup> Of the three informal investors who exhibited co-operative behaviour by accepting the exhibition stand opportunity, it will be remembered that two of these had established CSQ RBT, rather than DBT. In addition, the higher incidence of 'medium' scores with regard to the co-operation criteria recorded for both of them (Mr Dr: 1 high, 22 medium, 7 low; Mr G: 1 high, 5 medium, 2 low) is deemed to be such as to lower the co-operation threshold sufficiently for the 'higher' CSQ RBT to overcome it, enabling co-operative behaviour to ensue. In the case of the one informal investor who, in spite of having developed only DBT, still exhibited co-operative behaviour, this may be explained by the fact that he alone, of all the investors examining the exhibition stand opportunity, felt the risk to be low (4 R low intimations c.f. 2 R med, 0 R high). This fact, in and of itself, adds further weight to the suggestion that perceptions of Risk play an important part in determining the co-operation threshold for an opportunity.

In contrast to the role and impact of perceptions of Competence and Risk as co-operation criteria on the development of the co-operation threshold, which appeared to be confirmed by the findings of the wider third stage study, the role and impact of Utility and Importance as suggested by Dibben, Harrison and Mason (1998; 1996) following analysis of the rowing machine opportunity appears to be contradicted by an analysis of the extra two third stage study opportunities, as follows. With regard first to the role and impact of Utility, it may be seen from Tables 5 and 6 that over one quarter of all statements coded relating to the exhibition stands opportunity and over one fifth of all statements relating to the cast sign opportunity concerned considerations regarding the Utility, or potential economic value to be gained by investment in the opportunity. Such a large proportion of statements concerning utility in the cast sign and exhibition stand opportunities (Tables 5 and 6) tends to contradict the previous suggestion, based on the rowing machine opportunity (Table 4) alone, that the economic potential of the investment opportunity “is rather less important than assurances about the competence of the entrepreneur, reassurance about the potential risk of the situation and confidence in the referral mechanism” (Dibben, Harrison and Mason, 1998; 1996). Rather, the evidence from the other two opportunities tends toward the opposite suggestion, namely that consideration of Utility does play an important part in determining the co-operation threshold of the informal investor for the situation.

The importance of Utility in the development of co-operation thresholds in the decision situation under investigation may be seen in the cast sign opportunity, where high intimations of U low (the highest of all the co-operation criteria coded in this opportunity) appear to outweigh, or at least combine with, C low to bring about a high co-operation threshold (Table 5). The importance of Utility in determining co-operation threshold is perhaps best shown, however, by recourse to the exhibition stand opportunity and the fact that U med intimations regarding the its attractiveness as a potential investment opportunity (27) appear to have virtually cancelled out the effect of U low (28) and combined with high intimations of C med (26, c.f. 21: C low) to bring about the possibility of a lowered co-operation threshold sufficient for those angels with CSQ RBT to engage in co-operative behaviour. This is especially so with Mr Dr and Mr A, who both felt the investment represented a reasonably attractive investment opportunity (U low: 3; U med: 10 and U low: 2; U med: 5, respectively), although in the case



of Mr A this analysis is further complicated by the large number of positive intimations immediately at the end of the transcript (see 'accessing the process of trust and co-operation threshold development' below). The fact that, as with the earlier discussions regarding trust development above, differences in the results of the rowing machine investment compared with the other two investments may again be accounted for by the poor quality of that investment proposal confirms the point made following the second stage study (see chapter VI), that the relative importance of individual co-operation criteria in determining the co-operation threshold of an individual are trustor specific and, especially, situation specific.

Turning now to Importance, an initial review of the results of the extra two opportunities considered as part of the third stage study leads to the impression that these confirm the findings of the earlier study, based on the rowing machine investment alone, which suggested that "the investor's perception of the potential non-economic value of the situation (whether in terms of the potential psychic income to be derived from it or the reliance on altruistic motives in whole or in part) is of almost no importance at this stage of the process" (Dibben, Harrison and Mason, 1998; 1996). This may be seen in the fact that in eleven out of the twenty seven transcripts the informal investors concerned made no codeable intimation of Importance whatsoever. It may also be seen in the generally low numbers of coded criteria relating to Importance in the other transcripts (cast sign: 7%; exhibition stands: 5%) which indicate that, while it is contributing to the general impression leading to co-operation threshold development<sup>10</sup>, criteria other than Importance are having such an affect as to bring about the co-operation thresholds established even with its exclusion from the analysis.

With further investigation, however, it becomes clear that such a conclusion regarding the relatively inconsequential influence of Importance on the development of an informal investor's co-operation threshold is potentially erroneous, at least in specific instances. This is because analysis of individual transcripts reveals that certain informal investors regard Importance (i.e. the social profit to

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<sup>10</sup> Whereby in the case of the cast sign opportunity, the majority of Importance intimations relate to I low and may be said to therefore contribute to a high co-operation threshold, and in the case of the exhibition stand opportunity the majority relate to I med and therefore contribute to a comparatively lower co-operation threshold than for the other two opportunities.

be gained from an investment) as the single most important criteria governing their investment decision as may be seen in the transcript of Mrs A relating to the cast sign opportunity (intended initially for golf courses - see above), in which she says emphatically "I'm not the slightest bit interested... I am not a golfer". It may best be seen, however, in the following extract conversation between the interviewer AR and the informal investor Mr Bu relating to his consideration of the exhibition stand opportunity:

50)AR Well, what would you do next? I mean is this something you would be interested in?

Bu It's not a field I'm interested in.

AR Right.

Bu No.

AR But if you were interested in that field then you would think this is an okay opportunity.

Bu Yeah, I do.

In this example, which comes towards the end of the transcript, Mr Bu explains that whilst the exhibition stand opportunity merits investment (i.e. co-operative behaviour), he is not prepared to take it any further because he is not interested in it (i.e. there is insufficient social profit: I low). In spite of a majority of co-operation criteria intimations indicating a comparatively low co-operation threshold (med: 15, low: 6), and in spite of the fact that Importance criteria only accounted for 3 codifications, therefore, Mr Bu's perception of the low importance of the opportunity is sufficient to raise the co-operation threshold so as to prevent his co-operative behaviour. This example therefore illustrates the way in which relatively few Importance intimations can, in specific instances, have an uncommonly heavy influence on the development of the co-operation threshold, and is in contrast to the findings of the earlier study (Dibben, Harrison and Mason, 1998; 1996) which suggested otherwise.

With regard next to the informal investor's perception of the competence of the co-ordinator (termed co-ordinator judgement, CJ, see Table 2), this was found to not be a criterion that appeared to exercise much influence in determining the co-operation thresholds of angels considering either the cast sign or the exhibition stand opportunity. This is in stark contrast to the rowing machine opportunity where, from the number of coded statements relating to it, the issue of co-ordinator judgement (CJ) was of considerable importance in the decisions of the informal investors; it accounted for 18% of the Faith-Based Co-operation statements for that opportunity, compared with 4% for the cast signs and 5% for the exhibition stands. The fact that the rowing machine opportunity, as has already been mentioned, was considered to be the poorest of the three, in terms of amount and quality of information given, may account for the expressions of low competence on the journal's part. This, combined with the fact that only 9% of trust criteria coded in the rowing machine opportunity were for trusts other than DBT, confirms the findings from Case 1 ('An Illustration of the Role of Faith-Based Trust'; transcript 35) of the second stage study presented in the previous chapter regarding the importance of the co-ordinator in enabling workable Faith-Based Trust development.

The results relating to perceptions of the competence of the journal from the cast sign and the exhibition stand opportunities (Tables 5 and 6), however, bring into question the earlier suggestion that consideration of the competence of the journal generally plays a major part in the development of the informal investor's co-operation threshold, although it may be the case where the quality of the opportunity and its presentation are called into doubt, as in the rowing machine opportunity. This may be explained as follows. The fact that such abnormally large numbers of statements relating to CJ low in the rowing machine investment opportunity, when compared with the other two investment opportunities, were also paralleled by abnormally large numbers of statements of C low concerning the entrepreneur leads to the suggestion that where information is not of sufficient standard, the informal investors appear to judge the co-ordinator as well as the entrepreneur in a poor light. In this particular investment decision situation, this is because the poor quality of the proposal, especially in terms of its potential Utility and the Competence of the entrepreneur as perceived by the informal investors, leads

the investors to make judgements about the journal's own judgement in agreeing to publish the proposal in the first place (see Dibben, Harrison and Mason, 1998; 1996 for a discussion). In contrast, where instances of C low are offset by C med and U med, as in the exhibition stand opportunity for example, then the angels do not appear to be as concerned with the low competence or otherwise of the journal.

With regard to the wider research context of exploring interpersonal trust in the small business, of which this third stage study forms a part, however, it is also important to note that the strong expression of low co-ordinator judgement in the analysis of the initial investment decision process relating to the rowing machine opportunity confirms the findings of Case 2 of the second stage study ('An Illustration of Trust Development; transcript 37). These were that the lack of a sufficiently enabling trust relationship between the co-ordinator and one of the other two parties represents a significant barrier to the establishment of Faith-Based Trust. Furthermore, that insufficient trust in the co-ordinating medium is expressed by the informal investors in such a way as to be identified as low perceived competence of the journal (CJ low) reconfirms the applicability of the research proposition P5/iii, derived from Low and Srivatsan's (1995) comments regarding trust development in entrepreneurial settings and explored empirically in Chapter VI, that the forming of trust relationships (as well as co-operation threshold) depends in part on the trusted party's ability to signal trustworthiness and competence through willingness to share information. Thus, the findings from the third stage study again point to the efficacy of the direct link between trust and co-operation threshold in the Model of Co-operation developed in Chapter V which both allows for perceptions of an individual's competence to affect the development of one's situational and (it follows) general trust of that individual as one of interpersonal trust's many situational cues (see Chapter I), and also allows for competence as a separate criteria influencing the development of the co-operation threshold (and thence co-operation) in its own right.

A further competence factor influencing the development of the co-operation threshold was noted during the codification of the exhibition stand and cast sign opportunities; self competence of the trusting individual. This proved sufficiently isolatable in terms of both its referent and its relation to

information in the situation under consideration by the informal investor that, in the light of the nature of its occurrence in the transcripts, a separate criterion was created to enable accurate and uniform coding. In the light of the consistency of the comments relating to self competence in the transcripts, and by reference to the other competence criteria definitions, it is possible to define the Self Competence criteria, SC, as follows: “An individual's perception of his own professional ability in relation to the situation”, as characterised by comments regarding an individual’s own knowledge of such issues as market, product requirements, professional requirements of the investment (such as engineering knowledge) and so on. Some indication of the potential importance of perceived self competence may be gained initially from a reconsideration of the first stage study transcript regarding the entrepreneur BJ, discussed in Chapter IV, in which she suggests that the possibility of one of her employees “doing the dirty... was a real shell-shock to my little business, because... my whole sort of sense of ability to judge somebody’s character was going to be thrown out of the window” (Transcript 20). For the purposes of illustration, the following provide examples from the third stage study transcripts of statements coded as SC.

“... with a strong sales and marketing background, well that’s not my background so I’m put off by that. They’re obviously looking for an angel who’s got sales and marketing expertise... and I probably would read no further now because they’ve said they want sales and marketing expertise which I don’t have.” Mr McD

“I’m not a golfer myself so I’m not, I don’t have direct first-hand experience, so this is all a bit new to me, I would have to do some background investigation first to get a feel to what the market is like.” Mr D

“I don’t think it’s sort of really exciting where I feel I can contribute a lot. I don’t have [pause] I have some knowledge but I don’t have very detailed knowledge. His skills are very similar to my skills. He’s an accountant, I’m an accountant; that’s a recipe for disaster.” Dr C

In these examples, the informal investors use their past experience to comment on their own perception of the potential value which they feel they would be able to bring to the investment opportunities. In the first example, Mr McD indicates that his lack of competence (SC low) in the sales and marketing field is an immediate and significant barrier to his engagement in co-operative behaviour as a result of the specific requirements of the opportunity. In the second example, Mr D indicates that while his lack of knowledge in the golf market (SC low) represents a barrier to his considering the investment further, he feels that an improvement in this own competence with regard to the market would enable him to consider the opportunity further. Whereas the first example provides an illustration of the way in which SC low impacts on the development of a high co-operation threshold, the second example indicates that increases in perceived competence (for example to SC med) may reduce the co-operation threshold in certain circumstances. It is also interesting to compare the different reactions of the informal investors Mr D and Mrs A with regard to their experience of golf, in terms of codification. Whereas Mrs A expressed her lack of knowledge of golf in terms of a consequent lack of perceived Importance (I low) for the project as a whole, Mr D expresses his lack of knowledge in terms of a lack of perceived ability to contribute to the business. This provides further indication of the impact of the situation in determining which co-operation criteria have most influence on co-operative behaviour development in different individuals.

The final example, meanwhile, contains two consecutive statements from Dr C about Self Competence, both of which provide explanation for the initial comment about being able to help the company represented in the opportunity under consideration, but which indicate different levels of co-operation criteria contributing to a high co-operation threshold. The first intimation of Self Competence relates to Dr C's perceived lack of knowledge in the product/market area (SC low), whereas the second intimation indicates a similar amount of professional accounting knowledge between the entrepreneur and himself, as he perceives it, (SC med<sup>11</sup>). Nevertheless, the end result is a co-operation threshold sufficient for co-operative behaviour not to ensue, given a predominance of DBT, due to the outcome of

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<sup>11</sup> This co-operation criterion was coded as medium, since, from the statement, the trusting party did not feel he had exemplary knowledge greater than the entrepreneur, which would be coded as SC high.

both being felt by the informal investor to be an inability to offer sufficient assistance to get involved with the company. In one instance this is because the informal investor felt he could not offer any expertise and in the other it is because he feels he can only duplicate expertise. This implies that only where a SC high codification is recorded or, at least, where SC med codifications significantly outnumber SC low codifications will Self Competence have a positive bearing on the co-operation threshold. In this respect, it is interesting to note both that of the three informal investors who engaged in co-operative behaviour by indicating a willingness to proceed beyond the initial investment decision situation, two made more SC med intimations than SC low and the other made no mention of Self Competence, and that SC low intimations account for six of the seven SC codifications concerning the cast signs opportunity. This might imply that Self Competence has a significant affect on co-operation threshold, except that it accounts for under 6% of coded criteria concerning the exhibition stand opportunity (Table 6) and less than 4% of those concerning the cast sign opportunity (Table 5). This, together with the fact that no Self Competence intimations were recorded with regard to the rowing machine opportunity<sup>12</sup> implies that an individual's perception of Self Competence may operate in a similar way to the Importance co-operation criterion. That is, both Self Competence and Importance generally appear to add weight to an already developing co-operation threshold but, except in isolated cases, are insufficient to counteract the influence of other criteria in a manner which would affect its development.

Lastly, the parallels between Self Competence and the other criterion regarding perceptions of the competence of other than the trusted party, perception of the competence of the co-ordinating party (CJ), evident in terms of their affect on the development of the co-operation threshold of the informal investor in the initial investment decision domain, may imply a similar link between self competence and self trust as that between competence of the co-ordinator and trust in the co-ordinator discussed previously. The incorporation of Self Competence into the Model of Co-operation as a separate identifiable criteria affecting the development of the co-operation threshold, therefore, also allows us to overcome, at least in part, a possible limitation of the model hinted at in the beginning of Chapter V

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<sup>12</sup> This explains why the role of self competence was not detected during the coding process relating to the earlier Dibben, Harrison and Mason (1996; 1998) study.

regarding the role and effect of an individual's self trust on the process of interpersonal trust development and co-operation. It will be remembered that the issue of the development of self trust was put aside as worthy of discussion but outwith the scope of the present research. This was due not only to the research focus being on interpersonal trust (as opposed to intra-personal trust), but also to the methodological complexities of undertaking the necessary psychological research (in which, as was discussed briefly in Chapters I and V, much work on self trust has been undertaken), and the fundamental difficulties of incorporating such positivistic and Parminidean (as opposed to Heraclitian) methods within the interpretivist and processual metatheoretical presuppositions underlying both the theoretical discussions and the field work presented in this thesis (see also Chapter II). By incorporating the notion of self competence within the co-operation criteria, however, it is felt that some meaningful measure of the impact of perceptions of self on the co-operative behaviour of an individual and its relation to interpersonal trust can be gained. This is so at least in terms of an analytical framework which attempts to further discussions of trust and co-operation seen from an interpersonal and hence sociological perspective, as is the case here.

#### *Assessing the process of trust and co-operation threshold development*

The preceding discussion has provided an analysis of the role, impact and importance of different Faith-Based Trust sub-types and different Faith-Based Co-operation criteria on the development of co-operative behaviour. The fact that the situation involves the development of trust and co-operation thresholds in investors during the course of their first acquaintance with an entrepreneur and his company through the investment journal means that the situational trust and co-operation thresholds under examination will, by implication, be original to the situation concerned; they will not have been carried over in the form of general trust of the individual or the opportunity. The only general trust carried over into the situations under examination will be that of the investor in the investment journal as co-ordinating party, the impact of which has already been discussed above. This means that, apart from the influence of the investor's basic trust, the trust and co-operation threshold will develop entirely during the course of the interaction between the investor and the investment opportunity article



under consideration. Some impression of the nature of that development may be gained by analysing the codification data by a temporal reference. Since the data analysed in the third stage study consists of verbatim transcripts of the informal investors' vocalised thoughts as they assess the opportunities, with the number of codifications serving as a useful proxy for the importance of the different trust criteria coded and the levels of co-operation criteria coded, it follows that a meaningful representation of time, uniform across each transcript, may be gained by splitting the transcripts by page. This allows an analysis of individual transcripts according to the number of criteria coded by page or half page, where page is a proxy for time, so providing an exploratory illustration of the way in which trust and co-operation thresholds, and thence co-operative behaviour (or otherwise), develops during the course of the interaction.

Three transcripts were selected for this purpose, one from each opportunity, thereby enabling a brief exploration of the development of trust and co-operation threshold of three separate informal investors in three opportunities and providing a further means of assessing their development in terms of the similarities and differences between investors and opportunities. The three transcripts considered are Mr Bt's consideration of the Rowing Machines opportunity, Mr Dru's consideration of the Cast Signs opportunity and Mr A's consideration of the Exhibition Stand opportunity, the latter of which involved co-operative behaviour on the part of the informal investor as shown in his willingness to proceed beyond the initial investment decision screening and assessment domains. The criteria for selection were that the transcripts selected should be generally representative of the other transcripts relating to that opportunity in terms of the types of codifications and outcomes, and yet with sufficient codifications to enable a meaningful analysis of trust and co-operation threshold development for purposes of illustration.

Thus, while the transcripts selected were each at the top end of the sample for number of criteria coded, certain transcripts such as that of Mr F (Exhibition Stands) were excluded as a result of their extraordinary length. This also prevented any chance of the analysis from suffering from codifications of repetitions, which would clearly obscure an analysis of the development process. By

selecting one of the transcripts carrying an acceptance outcome as the example from the exhibition stand opportunity, it will also be possible to assess how and when the decision to co-operate may have occurred, and thereby further explore the applicability of the Model of Co-operation as an analytical framework operationalisable at the micro-level of the single interaction. The relationship between codifications and time by transcript half page, where a half page equates to approximately one minute (allowing for pauses mid sentence by the informal investor, given as "..." in the transcripts, and pauses between the interviewer asking a question and informal investor replying, and vice versa, neither of which enable an entirely accurate relation between time and space on the page, merely a proxy) of interview, is given separately overleaf as Table 9.

With regard first to the development of trust, it may be seen from Table 9 that this development differs across all three investors. In the case of Mr Bt, there is an immediate development of CSQ RBT followed by an apparent change to DBT on the first half of the third page (i.e. approximately within the first four minutes<sup>13</sup>), which is increasingly reaffirmed during the latter half of the assessment. Whether the change from CSQ RT to DBT maybe assumed to be immediate following its first intimation is unclear. Nevertheless by the fifth page (i.e. approximately ten minutes) it is apparent that any inkling of CSQ RBT has been cancelled out by increasing numbers of DBT intimations. Brief analysis of the other transcripts relating to the rowing machine opportunity, in which the majority of the other informal investors establish DBT within the first page of the transcripts, indicates that the initial intimations of CSQ RBT on the part of Mr Bt may be the result of his basic trust (i.e. the trust that an individual brings

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<sup>13</sup>It will be seen that the table begins its 'timing' with the second half of the first page. This is because in all the interviews (not just those considered in detail here), the first half page of the verbatim transcripts was taken up with the interviewers preamble; the informal investor therefore did not begin the assessment of the proposal until the second half of the first page.

Table 9	The Trust		Development Process		Time (transcript page)																		
	ONE	TWO	TWO	THREE	THREE	THREE	FOUR	FOUR	FOUR	FIVE	FIVE	FIVE	SIX	SIX	SIX	SEVEN	SEVEN	SEVEN	EIGHT	EIGHT			
	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half		
Mr Bl																							
Rowing Machines																							
DBT																							
CSQ RBT	3																						
FAM RBT																							
CBT																							
low criteria																							
med criteria	2																						
high criteria																							
Mr Dau																							
Cas Signs																							
DBT																							
CSQ RBT	1																						
FAM RBT																							
CBT																							
low criteria																							
med criteria																							
high criteria	1																						
Mr A																							
Exhibition Sands																							
DBT																							
CSQ RBT																							
FAM RBT																							
CBT																							
low criteria	4																						
med criteria	2																						
high criteria																							

to a new situation in which neither the individual nor the business is known; see Chapter III<sup>14</sup>) being comparatively greater than the other investors in the sample. In the case of Mr Dru, however, the occurrence of DBT intimations is relatively uniform throughout the period of the interview, with the exception of the middle one and a half pages (i.e. between seven and nine minutes) in which the occurrences increase to two intimations per minute and where it is therefore reasonable to suggest that DBT was 'cemented'. The occurrence of one FAM RBT intimation on the first half of page three (i.e. approximately the third minute of the interview), meanwhile, is an example of a case where FAM RBT has little influence on the overall development of the trust established during the course of the interaction (see 'trust' above).

Analysis of the third example, Mr A, shows the occurrence of only one intimation of DBT, on the first half of the second page, and leads to the suspicion that in the case of certain investors, the lack of any intimation of trust beyond the first page indicates that nothing has occurred to change that judgement. Indeed, a similar pattern may be seen in the case of Mr Dr, a fellow acceptor of the exhibition stand opportunity. In this case, the development of CSQ RBT on the second half of the first page (i.e. approximately one minute into the interview) enabled co-operative behaviour to ensue in spite of two later intimations of DBT on page three. This therefore provides illustration of the argument that CSQ RBT is more resilient than other 'lower' forms of trust (see Chapter III). This may also be seen in the fact that an early intimation of FAM RBT by Mr Dru had no affect on the overall establishment of DBT, and in the fact that a large number of intimations of DBT throughout the course of the interview were implicated in the annulment of the initial CSQ intimations made by Mr Bt (see above).

Turning now to the development of co-operation thresholds, analysis of the results shown in Table 9 indicates that co-operation thresholds develop over the same period of time as trust and in a similar manner, in that initial intimations established during the first few minutes are either supported or contradicted as the interaction proceeds with criteria at different 'levels' (high, medium and low where risk, due to its uniquely negative connotation, is listed in such a way as to correspond with the

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<sup>14</sup> Knowledge of the journal and the investment article appraisal situation is related to the trust of the informal investor in the co-ordinator and not the entrepreneur, since this is separate from knowledge of

influence of the other criteria; i.e. R high is counted as a 'low' intimation and R low is counted as a 'high' intimation for the purposes of the table) cancelling each other out to leave one threshold level predominant prior to the decision being taken to engage in co-operative behaviour or otherwise. The greater number of intimations is due for the most part to the greater number of criteria being coded for (six co-operation criteria against three [with the exception of CBT which was never present] trust criteria). With regard to Mr Bt's consideration of the Rowing Machine Opportunity, the medium criteria intimated in the first minute appear to parallel his first trust intimations (i.e. medium co-operation criteria and CSQ RBT) and may therefore indicate the influence of a type of 'basic co-operation threshold' similar to basic trust, discussed above. This is then increasingly cancelled out by a developing situational co-operation threshold which, in the same way as the trust development, is 'cemented' in the middle one and a half pages (i.e. between seven and nine minutes) in which the occurrences increase<sup>15</sup>.

With regard to the second informal investor, Mr Dru, it may be seen that co-operation threshold intimations also occur throughout the course of the interaction, whereby an initially positive response by the informal investor is quickly overcome with a succession of 'low' intimations. In contrast to Mr Bt, however, there is no readily apparent point of 'cementation' (as may be seen by the large number of 'medium' intimations as late as page six) but, rather, the larger number of 'low' intimations appear to cancel out the 'medium' intimations to render a high co-operation threshold by the end of the interaction<sup>16</sup>. This trend is also seen, for example, in Dr C's discussion of the Cast Sign opportunity,

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the business situation (and the entrepreneur himself).

<sup>15</sup> It is worth noting here also that the importance of the middle part of this particular interaction is specific to the investor, as with all the opportunity-investor situations considered here, since analysis of other transcripts relating to the opportunities indicates that co-operation thresholds and trusts are 'cemented' at different times during the interaction as the information in the opportunity is considered in different ways and at different times by each investor. Thus, no two interactions between can be the same.

<sup>16</sup> It will be clear that this analysis assumes that all intimations considered as 'low', for example, carry equal weight in terms of their ability to cancel out 'high' intimations. Given that the earlier discussion concluded that certain criteria may be more important in determining co-operation threshold, this assumption is clearly a simplification. It is employed here for the purpose of providing an illustration of the development of trust and co-operation thresholds since (a) the findings regarding relative weight were derived from an analysis of all 27 transcripts by frequency of criteria occurrence, and are therefore derived from a different level of analysis to that employed in an illustratory discussion of the development of trust and co-operative behaviour in 3 transcripts (b) the immediate discussion primarily employs a different unit of analysis, time rather than frequency of occurrence, making any direct comparison between the two discussions difficult irrespective of weighting, and (c) the cases selected for

where 'medium' intimations were apparent throughout the interaction, but were cancelled out by larger numbers of 'low' intimations, indicating a high co-operation threshold. Analysis of the third example, Mr A's consideration of the Exhibition Stand opportunity, meanwhile, provides a further instance of a co-operation threshold being 'cemented' towards the end of an interaction, with a large proportion of 'medium' intimations occurring on the last page. That this is a case resulting in co-operative behaviour, in spite of Mr A's DBT and a majority of 'low' co-operation criteria intimations, leads to the suggestion that, in a similar way to the resilience of different trust types, 'low' co-operation criteria may be less resilient to being cancelled out than 'high' co-operation criteria in certain scenarios, such as in this case, where 'cementation' of a relatively low co-operation threshold has occurred during the final part of the interaction.

Lastly, therefore, this analysis suggests that, whereas trust may be established early and maintained in the absence of any intimations, the co-operation threshold appears to be increasingly established during the course of the interaction and, depending on the individual concerned, may either be 'cemented' at some point towards the middle or end, or may be established as a result of one level of criteria cancelling out the intimations of another level. The interplay between the trust and co-operation threshold towards the end of the interaction leads to a behavioural outcome which, where trust is sufficient to overcome the co-operation threshold, results in co-operative behaviour and, where trust is insufficient to overcome the co-operation threshold, results in unco-operative behaviour for the situation on the part of the individual concerned.

## **CONCLUSIONS AND IMPLICATIONS FOR FURTHER RESEARCH**

This chapter has sought to build on both the methodological approach applied by Mason and Rogers (1995; 1996) which uses verbal protocol analysis as a real-time methodology for investigating the nuances and complexities of the decision making process and the findings of Dibben, Harrison and

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the purpose were chosen for their representativeness and freedom from irregular impact of one particular intimation or another, such as Importance discussed above. It is therefore felt that in spite of the equal weighting assumption, the general trends and influences of the various levels of criteria discussed here provide an accurate indication of the nature of the processes under discussion.

Mason (1998) to further investigate the role and effect of trust and co-operation criteria in a small business scenario. Rather than focus on the implications for informal investment, much of which has already been covered in the aforementioned paper, this chapter has focused on the implications for the development of an operationalisable framework for trust which enables a qualitative assessment of the way in which trust interacts with a specified set of co-operation criteria to bring about co-operative behaviour during the course of one situation. To do this, the study has focused on the development of Faith-Based Trust to overcome the difficulties of allowing for already established general trusts between the individuals concerned, and has focused on a decision situation in which this Faith-Based Trust Development has been facilitated by an inanimate co-ordinating party, thereby overcoming the need to account for some of the complexities of interpersonal trust between the co-ordinator explored in and each of the other two parties explored in Chapter VI. This has enabled proper focus to be placed, for the purpose of the further development of the models, on the development of the trust and co-operative behaviour between the two trusting parties under immediate consideration. Referring to the eleven research questions proposed earlier, the analysis provides indicative evidence for the following 'answers'.

1. What sub-types of Faith-Based Trust are most common in the investment decision situation?

A. Taking the results from all twenty seven transcripts DBT, the Faith-Based trust that resembles Dependence-Based Trust appears to be the most common. This is followed by CSQ RBT, the Faith-Based Trust that resembles CSQ Reliance-Based Trust and then FAM RBT, the Faith-Based Trust that resembles Familiarity Reliance-Based Trust. This predominance of DBT is due in part to the situation being essentially a transaction with an outside party which, from the findings of the first stage study, is predominantly a domain for Dependence-Based Trust. These findings are in line with those of both the first and second stage studies presented earlier.

2. What sub-types of Faith-Based Trust are most important in the investment decision situation?

A. The development of CSQ RBT, the Faith-Based Trust that resembles CSQ Reliance-Based Trust is most important in the investment decision situation, as this is most likely to result in co-operative

behaviour. In most cases DBT, the Faith-Based Trust that resembles Dependence-Based Trust, is insufficient to overcome the co-operation thresholds normally imposed by judgements regarding co-operation criteria. In these cases, the development of FAM RBT, that Faith-Based Trust that resembles Familiarity Reliance-Based Trust may go some way to enabling co-operative behaviour in the absence of CSQ Reliance-Based Trust, as indicated by the number of intimations of 'need for FAM RBT' in interactions which did not generate sufficient numbers of CSQ RBT intimations. The development of CBT, the Faith-based Trust that resembles Confidence-Based Trust, while potentially highly significant in the development of co-operative behaviour, due to its ability to overcome high co-operation thresholds, was not detected in the transcripts and this, while not surprising due to the nature of the initial investment screening and assessment situation under examination, prevents any informed comment about CBT beyond theoretical extrapolation.

3. What affect does trust in the co-ordinator have on the development of Faith-Based Trust in the investment decision situation?

A. Trust in the co-ordinator, as implied by the level and number of CJ co-operation criterion intimations, may play a significant part in enabling the formation of more resilient sub-types of Faith-Based Trust. This may be seen in the comparatively few CJ low intimations present in the transcripts that concerned interactions which led to co-operative behaviour on the part of the informal investor to proceed beyond the initial investment screening and assessment stages, implying an implicit trust in the co-ordinator, and also in the high number of CJ low intimations in transcripts concerned with the other two opportunities, and especially the Rowing Machine Opportunity acknowledged for its comparatively poor quality. This is in line with the findings of the second stage study (see Case 1 and Case 2, chapter VI).

4. What sub-types of Faith-Based Trust lead to investment decisions?

A. CSQ RBT, and DBT in cases where a low co-operation threshold is established. Where CSQ RBT is present, even if not predominant, then the possibility of investment increases. This is because of its



relation to the Competence co-operation criterion, as CSQ RBT itself indicates a perception of competence in the entrepreneur / entrepreneurial team often borne out in relatively lower numbers of C low intimations which themselves have the effect of lowering the co-operation threshold, sufficient in certain cases for DBT to overcome, leading to co-operative behaviour.

5. What sub-types of Faith-Based Trust lead to non-investment decisions?

A. The larger the proportion of DBT intimations, the greater the likelihood of non co-operative behaviour (i.e. a non-investment decision).

6. In what way does interpersonal trust develop during an interaction resulting in a) an investment decision,

and b) a non-investment decision?

A. Trust develops in a similar manner regardless of the outcome of the process as seen in co-operative or unco-operative behaviour. The situational trust that develops in both cases may be either established very quickly and remain as a given throughout the interaction, or it may develop during the course of the interaction to either cancel (or reinforce) out a basic trust imposed at the beginning of the interaction. Further study of a larger number of interactions is required to establish any pattern specific to a non-investment decision or an investment decision. Nevertheless in those situations studied there is indicative evidence to suggest that a situational trust may be 'cemented' at a point during the interaction and then reinforced for the remainder of the interaction, due to the individual coming to a judgement regarding the situational cues apparent to the individual at the time. In this respect, there is some evidence to suggest that certain sub-types of faith-based Trust may exhibit similar signs of resilience to other types of situational trust during the course of an interaction, such as CSQ RBT.

7. What Faith-Based Co-operation Criteria are most common in the investment decision situation?

A. Taking the results from all twenty seven transcripts, Competence is the most common co-operation criteria influencing the development of co-operation thresholds in the investment decision situation under discussion. This is followed by Risk, Utility and then Co-ordinator Judgement. The most common

level of each of these criteria for the transcripts investigated was C low, R med, U low and CJ low, resulting in a generally high co-operation threshold. This is again in line with the findings of the earlier stage field studies, which indicated high co-operation thresholds in initial interactions with external parties.

8. What Faith-Based Co-operation Criteria are most important in the investment decision situation?

A. As a result of the method employed for analysis of the results, frequency of intimation is taken to be a proxy for importance. While this is generally speaking correct from the analysis of the transcripts used in the third stage study, circumstances that are specific to the investor and opportunity mix may conspire to render one particular co-operation criterion, and even one particular intimation of that criterion critically important in determining the co-operation threshold for that investor in that situation. This was seen most clearly with Importance. This provides further argument for the assertion that trust and co-operative behaviour are situation and trusting party-specific. The impact and role of Importance and Self Competence is *generally* limited to adding to an already developing co-operation threshold, rather than overcoming or cancelling out other levels of other criteria.

9. In what way does co-operation threshold develop during an interaction resulting in a) an investment decision, and b) a non-investment decision?

A. The development of co-operation threshold appears to occur commensurate with a judgement regarding the various levels of co-operation criteria by the individual for the situation. Thus a co-operation threshold may be 'cemented' at a certain stage in a similar way to Faith-Based Trust discussed in Question 6 above, or it may develop (as appears most common in the specific cases examined in this study) towards the end of the interaction as a result of the different co-operation criteria cancelling each other out over the course of the interaction to leave a predominant level which is the co-operation threshold. Thus, where the predominant level of co-operation criteria is, for example 'low', then the co-operation threshold for that individual in that situation will be high and vice-versa. This is due to the positive nature of the co-operation criteria but the negative nature of the co-operation threshold; a low

Utility for the opportunity would imply the development of a high co-operation threshold which would require a 'higher' (in graphical terms) trust type to overcome it for co-operative behaviour to ensue.

10. What co-operation criteria have the most impact in determining a) a low co-operation threshold, and b) a high co-operation threshold in the investment decision situation?

A. A low co-operation threshold is generated by 'high' co-operation criteria (with the exception of Risk), and a high co-operation threshold is generated by 'low' co-operation criteria. From the study data discussed in the third stage study, the most impact on lower co-operation thresholds appears to be provided by favourable intimations regarding the perceived competence of the entrepreneur and the perceived utility of the investment opportunity (C med, C high and U med, U high). The most impact on higher co-operation thresholds appears to be provided by unfavourable intimations regarding the perceived competence of the entrepreneur, risk of the opportunity and utility of the opportunity (C low, R med, R high and U low). These findings regarding the development of co-operation thresholds during the course of a single interaction are also in line with the findings of the second stage study regarding the development of trust and co-operation threshold in the entrepreneur regarding outside parties (i.e. the opposite interaction to that discussed in the third stage study) over the course of a number of interactions, and emphasises the importance of information exchange between the trusting and the trusted party in terms of business needs and status and the abilities of the trusted party.

11. Is the distinction between Familiarity Reliance-Based Trust and CSQ Reliance-Based Trust, as proposed

in the Theoretical Model of Situational Trust Development, helpful in understanding the process leading to different decision outcomes, when compared with Lewicki and Bunker's concept of Knowledge-Based Trust?

A. The distinction between CSQ RBT and FAM RBT has enabled a greater understanding of the trust development process, especially in terms of the type of knowledge and information required for different types of trust development, as expressed in the quasi-criterion 'need for FAM RBT'. This highlighted the way in which, in the absence of CSQ RBT, information regarding the entrepreneur may enable the

development of a 'lower' trust type which would nevertheless be more capable of overcoming comparatively high co-operation thresholds than DBT. The ability to identify and isolate FAM RBT and CSQ RBT in terms of their relative roles and importance as separate situational trusts, as shown both in the second stage study with regard to multiple interactions and in the third stage study with regard to trust development during the course of a single interaction, indicates the legitimacy and utility of the distinction over and above an all-inclusive Knowledge Based Trust as proposed by Lewicki and Bunker (1995, 1996) and applied by Dibben, Harrison and Mason (1998; 1996). This is especially so given the identification of FAM RBT intimation in one of the Rowing Machine opportunity transcripts that had gone uncoded in the earlier study.

#### *Limitations and areas for further research*

Despite the value and usefulness of the research approach in generating insights into the process of trust development, however, there are a number of limitations which should be borne in mind (Mason and Rogers, 1996, 1997): first, the frequency counts of thought units by statement type and criteria are only proxy measures for the importance of those issues and in the absence of weightings assigned to each criterion frequency of citation should not necessarily be equated with importance in the decision process (Zacharkis and Meyer, 1995); second, some respondents were uncomfortable with the technique and provided a high proportion of comments which were only text repetition rather than vocalisation of their thought processes (Ericsson and Simon, 1993); third, verbal protocol analysis remains an artificial situation which can influence the respondents' mode of participation (indeed, some of the information presented in the discussion of co-ordinator judgement came from investor comments on the opportunity after it was clear that they had decided not to pursue the opportunity).

The work presented here does indicate, however, that the building of trust relationships between the entrepreneur and the informal investor appears to be essential for successful capital investments on the part of the informal investor to take place. The informal investor's trust in the entrepreneur is determined in the first instance by an assessment of the proposal, with the type of trust formed (be it

calculus based trust, knowledge based trust or identification based trust in the entrepreneur) depending on the judgement made from that assessment. In this respect, the work presented here has also shown how numerous factors may be seen to be taken into account by informal investors, regarding perceived risk, utility and importance of the opportunity, as well as perceived competence of the entrepreneur, when assessing investment opportunities. It has also shed light on how Faith-Based Trust and Faith-Based Co-operation may (or may not) develop in a temporary group mediated by a co-ordinator, and shown how perceptions of the judgement and ability of the co-ordinator himself may affect investment decisions. By providing a means for accessing and studying the processes that go towards the formation of business relationships at the level of the individual entrepreneur and informal investor over the course of single interactions, it has yet again been shown (as one might expect) that trust theory also provides a means by which to access the wider social and political processes that have remained relatively untouched by previous studies restricted to firm level analysis - the research of which has been argued to be of crucial importance to the future development of small business research (Scott and Rosa, 1996).

Nevertheless, a number of limitations remain, as follows. Although this study has included some analysis of investor trust in the co-ordinator, there are two domain restrictions which limit the ability to draw general conclusions on the development of a trust framework for the analysis of the informal investor's informal investment decision making process. First, the study is restricted to one situational domain - the initial screening and assessment process - and any conclusions, therefore, on the nature of trust relations (and on the dominance of calculus-based trust and entrepreneur competence issues in particular) in this domain will not necessarily transfer to other domains. It remains fair to suggest, however, that the Faith-Based Trusts and co-operation thresholds established by those informal investors who engaged in co-operative behaviour at the screening and assessment domains will transfer as the investor's general trust in the entrepreneur to the next domain, evaluation (see Table 1), where the investor meets the entrepreneur in person. While acknowledging that most informal investment opportunities are rejected at screening and assessment stages on the basis of no more detailed examination than the experimental design employed in this project, it remains important to extend this initial research to other situational domains in the decision making process. Second, in order for a

greater understanding of the process of trust and co-operation development to be gained from field research, it remains necessary to access both sides of the relationship simultaneously, if this is possible. It is only in this way that the co-operation between the two parties (and not just the co-operative behaviour of one of the parties, from which co-operation can only be assumed) - that is the effect of the combination of both of the co-operative behaviour predictions - can be accessed<sup>17</sup>. These issues therefore remain as possible areas for future research.

### *Contributions*

The research presented in this chapter has nevertheless made a number of contributions. This is so first regarding the further development of a more robust operationalisable trust framework for the analysis of trust development in the small business, in terms of (a) isolating and illustrating the presence, role and importance of three Faith-Based Trust sub-types (b) thereby confirming both the importance of Faith-Based Trust in the small business scenario and the efficacy of Familiarity Reliance-Based Trust as a separate trust type through an analysis of the Faith-Based Trust Type resembling it, (c) assessing the roles and importance of the numerous co-operation criteria and Faith-Based Trust Types in determining co-operative behaviour, and (d) identifying and analysing the role and importance of Self Competence as a co-operation criterion. It has also made a number of contributions, second, in the specific context of the role of trust in the business angel investment decision, following on from the earlier research by Dibben, Harrison and Mason (1998; 1996), by (a) confirming the general findings of the earlier study regarding the importance of trust in the investment decision, (b) examining cases of proposal acceptance as well as rejection, and (c) reassessing the relative importance of the numerous co-operation criteria, and especially Co-ordinator Judgement, in the light of the wider study. This in turn confirms the previous findings of Burt and Knez regarding the relative importance of third party influence on the development of interpersonal trust and co-operation in dyadic relationships (1996; see Chapter I). The findings regarding basic trust and FAM RBT has also enabled further empirical

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<sup>17</sup> For an illustration of how this may be achieved, using graphical representations of the trust and co-operation thresholds of two parties in a trust relationship which were then superimposed onto each other to enable predictions regarding co-operation/no co-operation outcomes, see See Dibben, Marsh and Scott (1996).

confirmation of other studies' research propositions suggesting that an investor's overall propensity to trust will affect his initial perception of the prospects of the venture and that an investor's familiarity with the entrepreneur may significantly influence his trust of the entrepreneur (c.f. Krieger, 1997).

In conclusion, the findings from the third stage study, as summarised in the 'answers' to the research questions which provided its structure, combined with the previous theoretical modifications to the Model of Co-operation concerning the addition of Self Competence (of the trusting party) as one of the co-operation criteria, allow the general conclusion that both the Theoretical Model of Situational Trust Development, and the Model of Co-operation, appear to be able to explicate the development of trust and the co-operation threshold during the course of a single interaction, thereby providing a meaningful interpretation of the behaviour of the individuals under study. That this chapter has deepened the research focus to a study of the micro-process of trust development also provides further illustrative evidence for a consistency within the models in terms of their explanatory power across a number of situational examples at different levels of access to a processual phenomenon. In the light of the findings of this chapter and the preceding second stage study, the next and last chapter, Chapter VIII, therefore briefly examines some of the implications for the small business of the increased understanding of the role of trust in the small business that the research has provided, before assessing the implications for trust theory itself with regard especially to the notion of trust as a processual phenomenon.

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## *Conclusions and Implications of the Thesis*

## Chapter VIII

### *Conclusions and Implications of the Thesis*

*What I am objecting to is the absurd trust in the adequacy of our knowledge.*

*The self-confidence of learned people is the comic tragedy of civilisation.*

Alfred North Whitehead ([1941], 1991)

This thesis has examined the nature and effect of interpersonal trust in the small business setting. Following a literature review of trust as it is considered in management and organization literature, it emphasised the importance of interpersonal situational trust development in social exchange and derived a conceptualisation of it as a subjective tacit knowledge which is used by individuals to fill gaps in their more explicit knowledge pertaining to a particular situation, reducing the complexity of the situation, and thereby facilitating interaction (Chapter I). It then considered a number of metatheoretical implications for the conduct of empirical study into the phenomenon, considering the need to adopt a processual metaphysic and an epistemological position which enabled the adoption of an interpretivist approach, and establishing the principle of demonstrable applicability (Chapter II). A Theoretical Model of Situational Trust Development model was derived from a further review of a number of models used in published research to explore trust in a number of management and organization settings, and which enabled the establishment of criteria for the identification of five types of interpersonal trust, Faith-Based Trust, Dependence-Based Trust, Familiarity-Reliance-Based Trust, CSQ Reliance-Based Trust and Confidence-Based Trust (Chapter III). This theoretical model was then applied to a number of small business settings, using a series of structuring research questions, in order to map out the frequency of trust subjects and objects in relation to the trust types identified, explore the impact of different trust types in different small business settings and illustrate the impact of interpersonal trust development on small business development, and thereby demonstrate in a limited way (as determined by the practical

constraints of the research, in terms of time and resources) the applicability of the model itself. This was achieved by the use of three separate, yet epistemologically related, research approaches developed iteratively following the findings of the research that immediately preceded each, through which the model was applied to the various settings and subsequently refined (Chapters IV, V, VI, and VII).

The first major refinement followed the empirical identification of the importance of interpersonal trust on co-operation, and involved the addition of a Model of Co-operation originally developed by Marsh (1995). This isolated a number of co-operation criteria (risk, competence of the trusted, importance of the situation, and utility of the situation as perceived by the trusting individual) which were determined as enabling the establishment of an individual's co-operation threshold for the situation concerned, and which situational trust would need to overcome in order to enable the co-operative behaviour of the individuals. The combination of both co-operation threshold-trust outcomes were said to determine whether or not co-operation between the two individuals ensued. This model was then briefly applied to the first stage study and, in the light of this, it was suggested that in all relationships some trust must be present for there to be a relationship to consider and that, as a consequence, the statement 'I don't trust that person' was strictly speaking inaccurate; it should be replaced more appropriately by 'I don't trust that person enough to feel able to co-operate in the situation under consideration' (Chapter V). Further to this theoretical refinement, the models were then applied to data derived from a participant observation study of a Scottish SME which found that the models enabled an exploration of the role and effect of the different types of trust identified and their subsequent impact on the development of the business, as a result of which the findings of the first stage study regarding the applicability of the various trust types in the small business setting was demonstrated. It was therefore concluded that significant business development occurred commensurate with equally significant trust development in relationships involving strategic actors within the business, its suppliers and customers (Chapter VI).

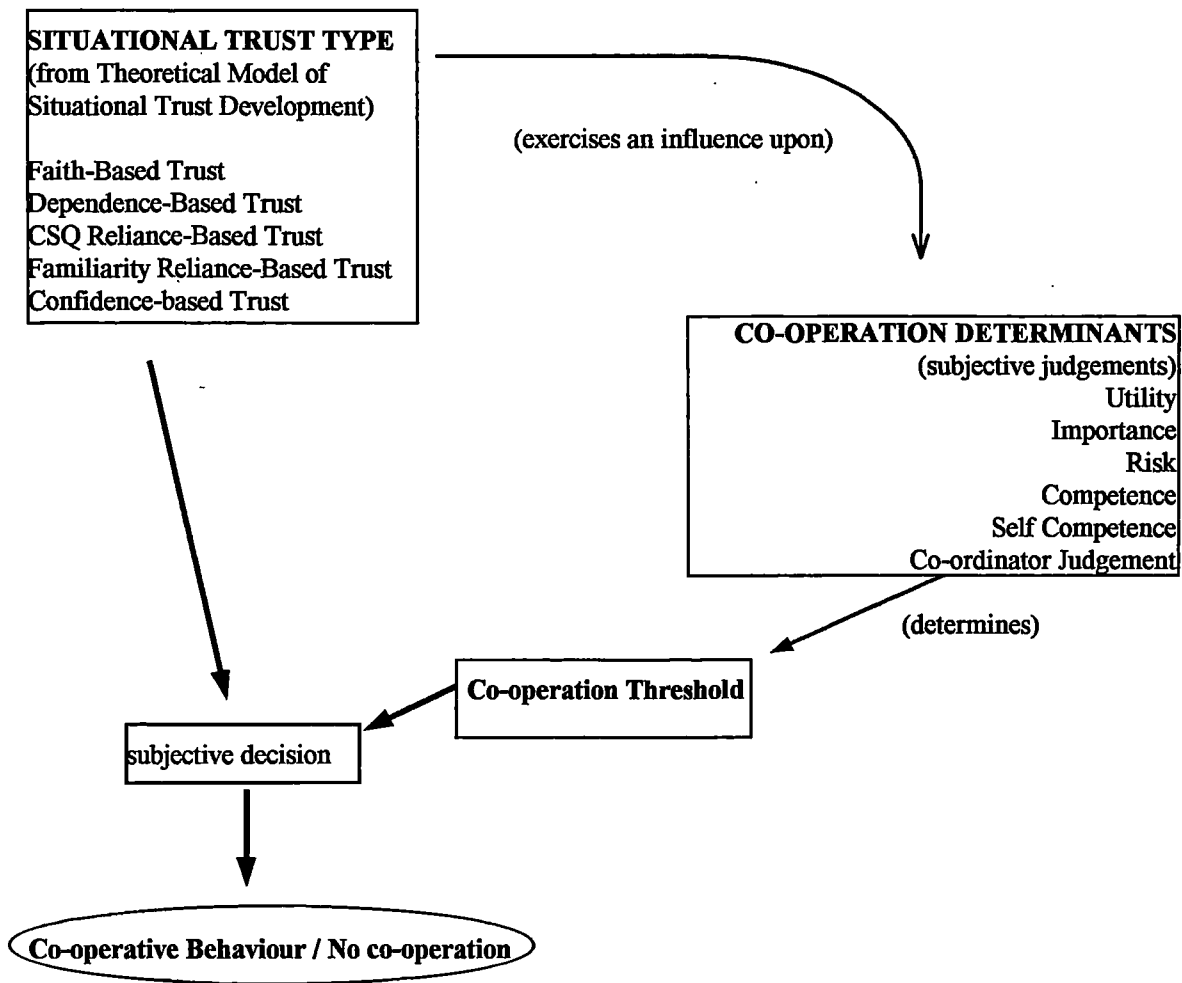
A second refinement to the models came about as a result of their application via protocol analysis of verbatim interview transcripts of a number of business angels assessing the investment

potential of a number of business opportunities (Chapter VII). This third stage study was undertaken in order to attempt to access the development of interpersonal trust during the course of one interpersonal interaction, which the previous two studies had failed to enable, and utilised data gathered by Mason and Rogers (1996) to extend earlier research derived from the thesis by Dibben, Harrison and Mason (1996, 1998). For cases where the two individuals concerned have not met, but are being introduced by a co-ordinating third party, the trusting individuals' perception of the competence of the co-ordinator was also found to affect co-operation threshold development. Analysis also indicated the importance in certain cases of perceived self competence of the trusting party as a criteria influencing the establishment of the co-operation threshold, as well as their attempted use of Familiarity Reliance-Based Trust in the absence of the more important CSQ Reliance-Based Trust to enable co-operative behaviour. Following these various refinements, a revised Model of Co-operation is presented as Figure 1, below.

In the light of the findings of the research presented thus far in this thesis, the main purpose of this concluding chapter is to discuss both the practical implications and the more general theoretical implications of the research, as opposed to the detailed theoretical implications discussed in each of the chapters that enabled the iterative development of the thesis. The discussion regarding practical implications of the research will take the form of a brief review of practitioner considerations of trust and the way in which a number of management consultants have approached the concept and its affect on the management setting, prior to a discussion of the way in which the findings of the research may be applied and utilised in the small business, as well as large organizations. The discussion regarding theoretical implications, given the general acknowledgement of the importance of trust throughout the social sciences identified in Chapter I, and the specific findings regarding interpersonal trust development at the level of the interpersonal interaction in Chapter VII, will centre around an attempt to contribute to the development of a yet deeper theoretical understanding of trust. This will take the form of a theoretical description of the ways in which the various influences on interpersonal trust and co-operation may affect their development at the micro level of each of the individuals in any given trusting situation by focussing explicitly on some of the possible *processes* involved in that development. This is in order to thereby enable further research to access and explore this development, both theoretically and

empirically. In the light of this discussion, the chapter next considers the overall contributions of the thesis, then identifies a number of limitations to the research and, lastly, concludes by suggesting a number of areas for further study.

**Figure 1.** *A Revised Model of Co-operation: The relationship between the Theoretical Model of Situational Trust Development and Determinants of Co-operation*



## **PRACTICAL IMPLICATIONS**

On the face of it, a conclusion that trust is vital to small business growth is not surprising; similar conclusions have been reached by a number of consultants. For example, Frohman and Frohman have argued that “trust is fundamental for effective and timely decisions and actions every organization big or small must take to survive in a rapidly changing, intensely competitive environment” (1993:50). In a study of team building techniques utilised by the Royal Air Force aerobatics display team, the Red Arrows, Owen argues that successful team building depends on building and developing trust (1996:46) and concludes that “trust is the glue that holds the team together” (ibid:99). Peters has also argued that reciprocal trust is “the basis of healthy relationships and must become the cornerstone of tomorrow’s adaptive enterprise” (ibid). Schein has suggested that levels of trust and openness in organizational groups, and especially multicultural groups, will play a large part in its success or otherwise (1994:50). Furthermore, Fombrun argues not only that “every good relationship between... employer and employee is built on a foundation of trust” (1996:113) but also that employers sustain reputations by establishing and maintaining these trust relationships (ibid:67). In his study of successful Scottish family businesses, Smith concludes that “a successful business partnership is based on trust” (1996:*endpiece*), while Hammer argues that trust within organizations is a significant factor in the lowering of barriers to change (1996:171).

In addition, there also appears to be a general consensus of opinion among these business gurus regarding factors that contribute to trust development and decline. With reference to the work of Owen (1996), Fombrun (1996) and Frohman and Frohman (1993), these may be summarised as high levels of communication, openness and honesty, high personal and team standards, being true to beliefs and values, accessibility and receptiveness, taking and devolving responsibility and exercising judgement, and establishing clear goals and objectives for the former, and high levels of criticism, accusations of misunderstanding, declining communication, lack of goal focus, group fragmentation and general avoidance of key issues for the latter.



The findings of the research presented in this thesis broadly confirm all of these arguments and contributory factors. By providing a greater understanding of the trust concept and its interaction with co-operation thresholds producing co-operative behaviour, however, the findings of the thesis shed light on the importance of distinctions between *different types* of trust that may be operating in different situations in the small business setting. The varying roles and impact of different types of trust in one situation, and of one trust type in different situations as identified in this thesis appear to be rarely, if ever, recognised in business and even consultant understandings of trust. Yet this thesis has shown the dramatic impact of different trust types on different situations. It follows therefore, that the major practical implication of this research centres on the identification and elucidation of a number of different interpersonal situational trust types.

The ramification of this research on strategies for trust development lies in the understanding that while significant trust development between strategic actors in the business may well bring about significant business development, the strategic actors involved in developing positive trust relations both within the business and between the business and external suppliers and customers would benefit from recognising that certain situations are more likely to exhibit certain trust types, and that it may be (both/) either unnecessary (and/) or impossible to develop beyond certain trust types in those situations because of the nature of the situation itself, not to mention the individuals concerned. In other circumstances, the identification of certain trust types operating in situations where different trust types may be more appropriate might enable active trust development. The key therefore lies in matching the situation to the most appropriate trust type, thereby increasing efficiency and effectiveness within the business. This may be achievable in the first instance by focusing on improving the trusting party's perceptions of the most critical co-operation criteria for the situation in question, since lowering co-operation thresholds appears to be more effective in the short term than attempting to alter an individual's situational trust of another. By iteratively developing a series of field work cases illustrating the role and effect of different trust types in different situations, the work presented in this thesis has gone some way toward enabling both accurate matching and trust building, as well as the lowering of co-operation thresholds in

interpersonal situations in the small business setting, as well as other settings involving individuals interacting within societal groups.

## **THEORETICAL IMPLICATIONS**

The development of a model of interpersonal situational trust and co-operation and its use across three separate sets of data, thereby providing a meaningful explanation of the role and effect of trust in small businesses provides for a number of theoretical implications, as follows. It confirms Goffman's assertion that building trustful relations in micro-situations can be both problematic and continuous (1967, in Eisenstadt and Roniger, 1984:26), and highlights Eisenstadt and Roniger's contention that "the central problem at the core of the analysis of friendship, ritual, personal and clientalistic relations is the one of the contribution of trust... in the social order" (1984:29). Furthermore, the implication is that it is only by a study of interpersonal trust (not societal trust or organizational trust) that the complexities of trust's influence on social exchange can be uncovered. In addition, by building from earlier work on interpersonal dynamics in new ventures which highlighted the central role of trust (Dibben, 1994), combining the theoretical underpinnings of three theories of trust (those of Clark, 1993, 1995, Lewicki and Bunker, 1995, 1996 and Meyerson et al, 1996) to account for the importance of subjective time and the different impact on trust development of familiarity with the individual and familiarity with the situation, and combining this understanding with the formalisms for trust and co-operation developed by Marsh (1995), the thesis has provided a theory of interpersonal situational trust which does appear to be able to explain the impact of trust on co-operative behaviour in any given interpersonal interaction. Thus, the research also arguably refutes Dodd's conclusion that "trust resists any kind of general theory based on substantive cases" (1996:139).

The research has also confirmed the accuracy of Marsh's work itself, originally intended for application to artificial intelligence agents, and demonstrated its applicability to domains involving human beings. Since the theory relies on the premise that there always is some degree of situational trust between individuals in an interaction and the research has used this to explain the co-operative

behaviour of a range of individuals in a variety of situations, it calls into question Mayer et al's assertion that "trust is not a necessary precondition for co-operation" (1995). This is because, contrary to their argument that "co-operation does not necessarily put a party at risk", risk is apparently present in any interpersonal interaction. In business interactions the risk is, as has been shown in this research, most likely to be economic risk, but there is also the possibility of social risk. It is suggested that social risk will be more prevalent in situations in which Familiarity-Based Trust is relatively more important as a determinant of co-operative behaviour (c.f. the cases presented in this thesis which, since they dealt with business interactions, were concerned mostly with CSQ Reliance-Based Trust).

While, as was suggested above, the work presented in this thesis has confirmed the argument developed in Chapter I that interpersonal trust is the most appropriate type of trust to examine in the search for an explanation of social exchange, it has also confirmed the argument that general trust and basic trust play a part in the development of an individual's trust in a situation, along with a variety of other situational cues. The difference between basic and general trust when compared with the majority of other situational cues lies in the fact that these trust types, as with situational trust, belong to the individual concerned, rather than being perceived by the individual. This contributes to situational trust development taking place "effortlessly, unnoticed by ourselves" (Polanyi, 1969:191) until we are forced by circumstances to confront our trust of another explicitly, by which time it has already developed and we are simply searching for reasons to explain it<sup>1</sup>. This, in turn, was apparent in the verbatim transcripts of the business angels studied in Chapter VII, and these transcripts therefore also provide further evidence for the argument developed in Chapter I that situational trust may be usefully considered to be a tacit knowledge used by the individual to fill gaps in his explicit knowledge of the situation.

#### *Some Immediately Apparent Limitations*

Although the research reported thus far in this thesis has shown that the Theoretical Model of Situational Trust Development and the Model of Co-operation do allow for the temporal development of

interpersonal trust and co-operation as a result of the influence of a number of situational cues and co-operation criteria, the field studies have failed to allow detailed exploration at the level of the individual either of how or when these influences interact with each other. With regard in particular to the third stage study, interpretation of protocols from coded verbatim transcripts renders analysis which is unavoidably one step away from the individual himself, however useful that analysis proves in providing an understanding of the most frequently occurring intimations relating to the development of trust and co-operation threshold (see Chapter VII). Furthermore, in spite of the field studies (and especially the third stage study) uncovering the process of trust development the models, while explicitly acknowledging the impact of time in the development of situational trust from one type to another in one situations and across a number of situations, do not attempt to integrate trust theory within a wider theory of process.

It is therefore necessary to now attempt such an integration, in order to gain a yet deeper understanding of the processes of trust and co-operation development, and thereby more fully appreciate their role and effect both in the small business and other management and organization settings, as well as other more generally social settings. Further to the identification of the importance of considering trust in terms of its processual development reiterated above and argued in detail in Chapter I and Chapter II, the chapter will therefore next propose a process philosophy, in the form of Whitehead's 'Philosophy of Organism', suitable for the further explication of the micro processes of trust development. The chapter will briefly discuss the difficulties of integrating trust theory in a philosophically rigorous manner into the Philosophy of Organism, arguing that this is effectively impossible given their conflicting epistemological presuppositions, and will settle instead on attempting a theoretical integration of trust into a theory of process as derived from Whitehead's Philosophy of Organism. It will then use this integration to provide a theoretical description both of the way in which interpersonal trust and co-operation might develop processually during the course of a situation, and also of how and when situational cues and co-operation criteria influence this development.

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<sup>1</sup> This is a further justification of the research approach adopted for the First Stage Study which avoided the use of the word 'trust' to help ensure entrepreneurs' attempts to explain did not generate inaccurate

The proposed integration will be achieved by briefly relating trust development in terms of the theory of process as described by Whitehead in his *Philosophy of Organism* ([1929] 1978), in order to uncover the possible constitution of the trust experience. The widely acknowledged power of Whitehead's thinking, as well as its influence on recent process philosophy (Rescher, 1996:20,183) is sufficient to legitimate its use here. It will be clear, however, that the purpose is not to engage in a philosophical critique of Whitehead's metaphysics; this is beyond the scope of this work, and has in any case been undertaken elsewhere (see for example Schilpp, [1941] 1991). While it is admitted that the use of Whitehead's *Philosophy of Organism* may be the theoretical equivalent of using a sledgehammer to crack a nut, the attempt will be made for two reasons. First, in order to come to a greater understanding of the process of trust development. Second, in order to associate the theory of trust developed in the thesis with a robust philosophical framework not only for the purpose of the theory's further legitimation, but also to demonstrate by theoretical relation what has already been shown empirically - namely that trust is most usefully considered in process terms, rather than the more conventional static terms under which it has previously laboured.

## WHITEHEAD'S PHILOSOPHY OF ORGANISM

Whitehead's *Philosophy of Organism* is widely regarded as one of the most technically complex theories of process metaphysics. This fact has arisen no doubt in part from its author's wish to avoid the error of "the epistemologies of the last two hundred years... [whose]... copious use of simple literary forms... provide a philosophy delightful to read, easy to understand and entirely fallacious" (AI:181<sup>2</sup>). Nevertheless its basic principles, with which we are concerned here, are relatively simple. As with all theories of process, it is based on the presupposition that the world contains only processes and that what is seen as static in the everyday world is a temporary arresting of that process. It will be remembered that

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data by *post hoc* rationalisation (see Chapter IV).

<sup>2</sup> The common convention in studies of Whitehead's work, and as used by Whitehead himself when referring to his own work, is followed in this paper such that the relevant book is listed by the first letter of each of the main words in its title. This avoids confusion over different books whose various editions sometimes overlapped in terms of their year of publication. With regard to those works used in this paper, SMW refers to *Science and the Modern World* (1926), S refers to *Symbolism: Its meaning and Effect* ([1927] 1958), PR refers to *Process and Reality* ([1929] 1978) and AI refers to *Adventures of Ideas* ([1933] 1961).

the way such arresting might take place was explained in Chapter II by extensive reference to Bergson's eloquent descriptions, which may be profitably re-read at this point. Thus, the philosophy relies on time and the relation of arrested moments to each other for its fundamental measurement (PR:29, and Lawrence, 1974:70), over and above size and location - which are more closely associated with attempts to understand the world in terms of stasis.

*Basic descriptions and terminology of process*

The result is that *any* thing, be it physically observable (such as a chair) or otherwise senseable, is construed as coming into being as a result of the combined influence of a number of other separate things. And that thing, once it has come into being then goes on to combine with other things to effect the coming into being of a new thing, and so on (PR:210), such that "it is inherent [in each constitution] that a future will supercede it... [while the past] is a condition to which the future must conform" (PR:215). In this way, therefore, the past may be considered to "have an objective existence in the present which lies in the future beyond itself... [and] the future can be said to be immanent in occasions antecedent to itself" (AI:191). The precise combination of things, however, is never the same, with the result that even if the thing under immediate consideration appears the same as it did before, it is not (PR:256,321). Every time a chair is sat upon it alters, such that the chair becomes worn out over time. It is therefore immediately apparent that the philosophy relies on the implicit adoption of a scale of time appropriate to the thing under consideration (e.g. the chair). The philosophy is construed such that any thing of any size or complexity whatever, be it living (in the everyday sense of the word; e.g. an animal, a human being) or otherwise, may essentially be considered in this manner, and 'feels' (prehends) the things that influence it as it comes into being. This allows the philosophy to explain all science (e.g. physics, mathematics etc.) and the creation of inanimate objects (e.g. chairs, pens etc.) in terms of continuous process. Thus, in the process of its coming into being a molecule of water prehends the affect of oxygen and hydrogen. Given the specific attempt in the context of this discussion to account for trust - construed in this case as a phenomenon belonging to individual human beings - the complexity of the 'inanimate' side of the philosophy will be ignored as far as possible.

In order to avoid static thinking (as imposed by the use of the word *thing*, for example), confusion with static philosophical conceptualisations, and unwanted yet attendant implications of certain metaphysical terms in common use, Whitehead devised a terminology peculiar to his philosophy to describe the processes involved (PR:22). Those terms which are of immediate concern here are listed as follows.

"Actual entities - also termed actual occasions - are the final real things of which the world is made up. There is no going behind actual entities to find anything more real" (PR:18). In its ultimate sense, the 'world' here means everything. Thus by "the final real things in the world", we might consider atoms (PR:27, 35). Atoms combine to form more and more complex, ever changing, entities which also combine to influence the forming of yet more complex entities, and so on (PR:214). This comes about as a result of the fact that "actuality in perishing... loses the final causation which is its internal principle of unrest, and it [then] acquires efficient causation whereby it is a ground of obligation characterizing the [next] creativity" (PR:29). Thus, "each actual entity bears in its constitution the reasons why its conditions are what they are. These reasons are the other actual entities objectified for it" (PR:20). It follows that the *objective datum* is any entity which "has something to offer in the way of a useful constituent to the actual occasion in its process of self making..., [while] the use to which the actual occasion puts the [objective] datum" is its *subjective form* (Lawrence, 1974:74).

The instance that is the forming of an actual entity, "the production of novel togetherness" (PR:21), is termed the *concrecence*. It follows that a concrecence is "the real internal constitution of a particular existent" (PR:210-11). An immediate concrecence, in "falsifying the presupposed completion" of the world, is the only standpoint from which we can survey that world (ibid). For the purposes of this discussion, the world means 'that world under consideration by the entity considering it'. This allows us, correctly, to construe an idea (which is not obviously a physical substance) as an actual entity, since we may perceive it as a final real entity in the particular world we wish to consider. As an illustration, however, let us consider a brick wall. We might term that wall "an actual entity". On the

other hand, if we consider the wall in relation to what it is made up of (separate bricks, mortar etc. - other actual entities), we might also call it a complex entity or, alternatively, a "set of entities", depending on the unit of analysis we wish to select (S:15). Thus, actual entities "differ among themselves... [but are all] drops of experience, complex and interdependent" (PR:18).

**Enduring Objects** - "temporarily linked together clusters of actual occasions" (Lawrence, 1974:73), or in other words "complexes of actual entities where there is a sustained repetition of pattern with novel elements in some kind of orderly synthesis" (ibid:48). In this sense, therefore, and depending on one's units of both analysis and time, the brick wall might also be described as an enduring object. Whitehead takes as his example, however, a mountain since "the mountain endures. But when after ages it has been worn away, it has gone. If a replica arises, it is yet a new mountain" (SMW:126). While the two examples of the wall as an actual entity or set of entities and the mountain as an enduring object provide an implicit illustration of Whitehead's own sense of the appropriate units of analysis and time, it is worth mentioning that these are made in relation to the world he is considering in his search for effective illustration of the principles he is describing. This is apparently (and coincidentally) the world of physical entities in the time span of the development of the earth - an appropriate one for the general reader. This does not preclude our use of the term enduring object at a different level of analysis, however, so long as the principle of *endurance* over a given period of time remains (SMW:126).

**Eternal objects** - "any entity whose conceptual recognition does not involve a necessary reference to actual entities of the temporal world" (PR:44). Eternal objects are therefore trans-temporal; "the passage of time does not affect their natures" (Lawrence, 1974:59), regardless of any association as subjective forms in the concrescence of an actual occasion. Two types of eternal objects are distinguishable. The first type consist of those who exhibit "zero complexity" (SMW:240). Such *simple eternal objects*, bearing in mind the unit of analysis under consideration that is the actual entity in concrescence, "cannot be analysed into a relationship of component eternal objects" (ibid). The second type consist of a "definite finite relationship involving the the definite eternal objects of a limited set of such objects"



(ibid:239). Such complex eternal objects are recognised by their "analysability into a relationship of component (simple) eternal objects" (ibid).

## INTEGRATION

The application of Whitehead's Philosophy of Organism to the trust concept is made in order both to illustrate the centrality of process to trust development and also to attempt to provide a philosophical explanation of the development of interpersonal trust. It is clear from the way that trust theory is traditionally conceived, however, that the underlying philosophical presuppositions of those who developed trust as a theory are the very ones that Whitehead described as fallacious and developed his philosophy to overcome. These presuppositions are readily apparent for example in the definition of trust given by Boon and Holmes (paraphrased in Chapter III): Trust is "a *state* involving confident expectations about another's motives with respect to oneself in situations entailing risk" (1991:194, my emphasis) - a commonly accepted definition (see for example Lewicki and Bunker, 1995; c.f. [e.g.] Mayer et al, 1995)<sup>3</sup>. This leaves a problem for our use of Whitehead's philosophy, since the contradictions and confusions it reveals are such that a philosophically rigorous integration of trust into Whitehead's philosophy would require a detailed exploration of trust theory's development, *in terms of that development's implicit philosophical underpinnings*, and appropriate amendment, prior to its integration. Such an excavation of the metatheory of trust, however, is beyond the scope of the work of which this discussion forms a part, since it aims at an exploration of the role and effect of trust in the small business setting, not a philosophical repositioning of trust theory within a different metaphysical scheme<sup>4</sup>. This latter task, however useful, is left more appropriately as the subject of future work in Philosophy, rather than Management or Entrepreneurial Studies.

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<sup>3</sup> As a further example, a brief review of Vols. 1-107 of *Ethics*, the philosophical journal publishing a considerable number of philosophically-oriented articles on trust also bears this out. Even those articles appearing in its most recent 'Symposium on Trust' either explicitly or implicitly retain a presupposition of trust as a static event (see Jones, 1996; Hardin, 1996 and Becker, 1996).

<sup>4</sup> Such an excavation of the metatheory of trust is made substantially more complex by its implicit nature, since the first stage in the research process required would be an attempt at uncovering the metatheory by rendering it explicit. This is in contrast to similar research regarding the metatheory of management, for example, since this is the explicit subject of a body of research facilitating such excavations (see for example Spender, 1994 and Tsoukas, 1994). Some indication of a predominant

It follows that the purpose of the discussion presented here is to provide a description of the basic process Whitehead himself describes, and use it to provide further theoretical insight into the way trust might in fact develop. It is therefore necessary only to relate the fundamental concepts of both trust theory and process theory, as derived from Whitehead's *Philosophy of Organism*. This will enable a description of the basic process as theoretically envisaged, prior to a detailed exploration of the process of trust development in terms of the relation of trust as felt by the complex entity the human being, towards another human being. We shall avoid, however, a detailed discussion of the more complex elements of the philosophy beyond what has already been given above, such as a nexus ("a set of actual entities in the unity of the relatedness constituted by their prehension of each other" PR:24), integration, ingression, and transmutation, which go beyond the requirements of this study.

### *Theoretical Propositions*

It will be apparent that the accuracy of an application of a theory of process to trust development depends, ultimately, on selection of the appropriate unit of analysis, for this will determine the validity or otherwise of the subsequent research that builds from it. The above discussion has revealed the concreting actual entity as the central concept in Whitehead's explication of the process of the development of experiential existence; this is its irreducible unit of analysis. With reference to the theory of trust discussed in Chapter I and Chapter III, it is suggested that any theoretical (as opposed to philosophical) integration therefore relies upon four conditions. First, that a purposeful distinction be made between an actual entity and an actual occasion, whereby a) the actual occasion is the unit under immediate discussion (that which is in the process of becoming) and b) the actual entity is the unit which is formed, 'is immortal in the past', and which the actual occasion prehends in its coming into existence. This is not a distinction which Whitehead makes explicitly, but it is felt that this helps in correct identification of the 'subject'. Second, following from the first condition, that the appropriate units of analysis for the actual occasions in concrecence are selected. Third that the appropriate actual

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reliance on stasis as opposed to process may, however, be seen in the archetypal work of Niklas Luhmann (1979; especially Chapter 2 "States and Events").

entities affecting the concrescences are identified and discussed, and fourth that the appropriate eternal objects are identified and discussed.

Bearing these conditions in mind, therefore, the following three integrations of trust theory, as discussed above, with a theory of process, as derived from the Philosophy of Organism, are stated and discussed in terms of the nomenclature of the Philosophy of Organism.

#### **actual occasions**

Four levels of actual occasion are isolated for analysis. At level i) situational trust, at level ii) co-operative behaviour or unco-operative behaviour, at level iii) co-operating action / no co-operating action on the part of the two individuals in the relationship, and at level iv) general trust.

#### **actual entities**

Four levels of actual entity are isolated for analysis. At level i) situational cues (including the previous situational trust in the immediately prior occasion) as separate actual entities combining as a set (set S) to affect the concrescence of the actual occasion that is the situational trust under discussion. At level ii) criteria for co-operation as separate actual entities combining as a set (set C), which combine with situational trust - the actual occasion of level i), now termed a complex actual entity - to affect the concrescence of the actual occasion that is the co-operative behaviour or unco-operative behaviour of each of the individuals, separately, under discussion. At level iii) the actual occasions of level ii), now each termed a set of actual entities, which are the two co-operative behaviours of the two individuals, which combine to affect the concrescence of the actual occasion that is the co-operating action / no co-operating action that takes place among the two individuals. At level iv) the set of actual entities that are situational trusts (set T) which combine to affect the concrescence of the actual occasion that is the altering general trust of the individual.

## **enduring and eternal objects**

General trust is identified as an enduring object due to its semi-permanent nature (see actual occasions and actual entities above). Basic trust, being the character trait of an individual, is identified as a simple eternal object affecting the concrescence of the level i) actual occasion that is situational trust, where that eternal object is prehended by the actual occasion in the absence of the enduring object.

## **APPLICATION**

The attempt to integrate trust within a theory of process was made in order to enable an exploration of how a situational trust is created and continued throughout a situation. Without the terminological change this understanding of the process itself would prove virtually impossible, such is our everyday awareness only of an entity A, change of that entity A, and the resulting entity B (i.e. Bergson's 0 and 1 - see Chapter II). Trust is, for example, dependence-based, and it then changes and becomes familiarity-based. Or, trust is dependence-based and, as a result of a number of situational cues confirming that trust, remains. Such simple statements, however, mask a process of change within even the continuity, and lie at the root of Whitehead's contention, stated earlier, that common epistemological positions such as those often adopted in scientific research (both 'pure' and 'social') are easily comprehensible but erroneous (AI:181). The purpose of this section, therefore, is to attempt a deeper understanding not only of A and B, but also the process of change itself which is effectively unknowable outwith a process meaning structure. This will be achieved via an exploration of the way in which a situational trust might arise and be maintained throughout the period of the situation. It will rely on a particular understanding of consciousness and knowledge, derived in part from Whitehead and in part from the conclusion reached previously that situational trust is a form of tacit knowledge 'invoked' by the trusting individual in order to overcome a relative lack of explicit knowledge about a situation, in order to reduce the complexity of that situation (see Chapter I).

### *Theoretical Application*

That situational trust may be construed as a type of knowledge can be confirmed by the following definition of knowledge as "conscious discrimination of objects experienced... derived from, and verified by, direct intuitive observation" (AI:176). This in turn confirms the assertion made in Chapter I that basic trust and general trust are more usefully considered as intuitions, not knowledges, as well as the requirement of cognition for the development of knowledge. It was said that 'general trust is that which is relegated from the subjective (immediate) to the objective (mediate...) by the immediacy of the new situation; the cognitive processes cease. Thus it becomes intuition, a source of knowledge, not knowledge itself'. Put another way in the light of the application of Whitehead's terminology, as well as the earlier arguments regarding subjective-objectivity in Chapter II, we may say that the subjective actual occasion in the moment of concrescence that is situational trust subsequently becomes the subjective-objective actual entity that is general trust, which then informs the concrescence of subsequent actual occasions of situational trust in their immediacy via its prehension as an intuition.

Trust's relation to the conscious self (the human being feeling it) may be further elaborated as follows. Conscious perception "is analogous to an affirmative judgement" (PR:273) and "only arises in some [instances] where propositional feelings are [involved]" (PR:259), where a proposition is an actual entity which "makes incomplete abstraction from determinate actual entities" (PR:257). The effect of the mind's intervention at this stage in the form "the entertainment the mind gives...[the] proposition is called a belief... which is the admitting or receiving any proposition for true, upon arguments or proofs that are found to persuade us to receive it as true, without certain [explicit] knowledge that it is so" (PR:267). Here at once is the general rule of process that allows trust as "an individual's positive expectation about another's motives with respect to him/herself in a situation entailing risk" (Boon and Holmes, 1991:194), and also predicts both its capacity for endurance (and, by implication, its strengthening) and its decline.

Probing deeper into Whitehead's notions of knowledge and consciousness, we further discover that the "triumph of consciousness comes with the negative intuitive judgement..., the feeling of absence..., as produced by the definite exclusiveness of what is really present" (PR:273). Hence, we again arrive at the conclusion that the lack of explicit knowledge really present leads to the need for trust. That this judgement is intuitive also explains the fact that trust is itself more often conspicuous in its absence rather than its presence; there is a double absence, both of explicit knowledge and of the consequently required tacit knowledge that is situational trust. That this 'double lack' is often felt as a strong emotion is unsurprising since "the basis of experience is emotional" (AI:176) and knowledge is a form of conscious discrimination "present only in the more elaborate examples of occasions of experience" (ibid).

With reference to the theoretical propositions stated above, we may conclude, therefore, that situational trust is a type of knowledge, a complex occasion of experience that is in itself an actual occasion affected in its concrescence in the mind by a set of actual entities (set S). Co-operative behaviour, therefore, is the actual occasion in concrescence arising from the conscious integration of a situational trust (the complex actual entity) with the intuitive co-operation threshold that is the result of a simplifying abstraction of individual prehensions of another set (set C) of actual entities (see below for a discussion).

## **A PROCESSUAL DESCRIPTION OF THE DEVELOPMENT OF INTERPERSONAL TRUST AND CO-OPERATION**

Yet, how might the structure of the elaborate experience that is 'the tacit knowledge trust' be directly observed? The forming of a situational trust (the level i) actual occasion) in an individual, its continuity over the time period of a situation, and the development of co-operation thresholds and co-operative behaviour (the level ii) actual occasion) over the same time period may be explicated by what amounts effectively to a repetition (with certain extensions) of Whitehead's own illustration of the

process of concrescence of actual occasions (AI:183-4, 192-3), as follows<sup>5</sup>. Suppose that for some period of time some circumstance of his life has aroused trust in a man Y for another man Z. How does he know that a quarter of a second ago he was trusting, and how does that relate to his feeling now? The first phase in the immediacy of the new occasion is that of the *conformation* of his feeling. The feeling as enjoyed in the past actual occasion (situational trust) is present in the new occasion as a datum felt (an actual entity), with a subjective form conformal to the datum (e.g. as familiarity-based trust). Thus if A be the past occasion, E the datum felt by A with subjective form describable as A trusting, then his feeling - namely A feeling E with subjective form of trust that is familiarity-based trust - is initially felt by the new actual occasion B with the same subjective form of trust.

Furthermore, the trust is continuous throughout the successive occasions of experience within the situation, since the man Y is continuously embodying his past situational trust as a datum in the present, consciously or unconsciously, and maintaining in the present the trust which is a datum from the past. In so far as that feeling has fallen within the illumination of consciousness, he enjoys a subjective perception of the past emotion<sup>6</sup> toward the other man Z. In the case either of a new situation or of another individual unknown to man Y, the enduring object that is the general trust of Y takes the

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<sup>5</sup> The version given in *Adventures of Ideas* ([1933] 1961) is used here in preference to any other since it represents one of the most recent (i.e. that it therefore implicitly carries the benefit of some three or four years further consideration since the rendering given in *Process and Reality* [1929] 1978), economically complete (i.e. that it contains all essential elements), short and comprehensible explanations provided by Whitehead of the process (cf. *Process and Reality*).

<sup>6</sup> Whitehead here uses the phrase "non sensuous perception of the past emotion" (AI:184), making a distinction between sense perception (the reception by the senses of external objects antecedent to their reception by the individual) and non sensuous perception (the interpretative meaning imposed on the data by the individual). I maintain on the contrary that to suggest that data may be considered by an individual separate from his consideration of it is fallacious, since meaning is inherently rendered, either consciously or unconsciously, by the individual in his perception of the data. In this sense, therefore, sense perception without non sensuous perception is impossible. This is a point Whitehead himself admits: "The evidence on which these interpretations [i.e. derivations of bare sense perception] are based is entirely drawn from the vast background and foreground of non sensuous perception with which sense perception is fused, and without which it can never be. I can discern no clean-cut sense perception wholly concerned with present fact" (AI:181). I extend this further, however, to suggest that since sense perceptions cannot be consciously acknowledged without interpretation from non sensuous perception, they cannot logically be considered as perceptions separate from our subjective view. What remains is solely the perception of the subject (the individual) perceiving subjectively. This I term subjective perception, and contend that sense perception, being tantamount to simple objectivity, is a fallacy (see also Chapter II above). Such simple objectivity applies also to any tendency to conceive of separate objects while forgetting the subjective nature of that conceptualisation. While such forgetfulness is something which Whitehead is not strictly speaking guilty of, since he is at pains to point out that his

place of the past occasion A, and in the case of both situation and individual being unknown to Y, the eternal object takes the place of the past occasion A in the above discussion. In the case of a conformation of general trust (the level iv) actual occasion), then the process is the same as described above with the exception that A, B and E are descriptors of general trust, rather than situational trust.

Note that as yet no mention has been made of the impact of the other man in the relationship, man Z; the conformation of feeling just described relies solely in this first phase on the actual entity (datum D) that was the past actual occasion A. The influence of the other man Z comes in the second phase, the *intermediate phase*, of the concrescence of the new actual occasion. This occurs with the prehension of changes in the situational cues perceived as a result (in part) of the other man Z's behaviour. These changes introduce a novel content, composed of positive (i.e. recognised as important influences) conceptual prehensions affecting the concrescence of the new actual occasion (again named B). These conceptual prehensions, are subjectively felt as subjective forms "in a ferment of qualitative valuation" (AI:210), within which each evaluation comprises "merely subjective readjustment" of the particular prehension (PR:249). Thus, each of the level i) actual entities (situational cues) which introduce a novel content are separately considered as an objective datum F(x) felt by A, and giving rise to B's concrescence. Thus if, again, A be the past occasion, F the different datum felt by A with subjective form describable as A trusting, then his feeling is initially felt by the new actual occasion B with a different subjective form of trust<sup>7</sup>. This new trust is now again continuous throughout the successive occasions of experience within the situation, since the man Y is again continuously embodying his latest past situational trust as a datum in the present, and maintaining in the present the trust which is a datum from the past, *in the absence* of other data introducing yet more novel content. Depending upon the situation, the level i) actual entities that are the situational cues might be felt by B as one prehension, since there may be "a transference of the characteristic from the individuals to the group"... whereby [they are mentally evaluated] and fused into one dominating impression" (AI:213).

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'non sensuous perception' is "dominant" (AI:212), he often appears to come perilously close to it (see, for example, AI:211-213 and PR:232).

<sup>7</sup> This explanation is strictly speaking incomplete. It is the subjective form in A (i.e. belonging [once-removed] to Y) which (in the Whiteheadian sense) feels F and, thus, A (the situational trust) feels F (the situational cues) with subjective form describable as A trusting F. That is, F invokes the trust in the



This impression would be that arising from the actual entities of the set S, and considered if appropriate as the objective datum F. Again, in so far as the novel feeling of trust has fallen within the illumination of consciousness, the man Y now enjoys a subjective perception of the emotion affected by past emotions (i.e. the objective data  $F(x)/F$ ) toward the other man Z. With regard to the concrescence of a new level iv) actual occasion, general trust, the process is the same except that novel content is introduced solely through the level iv) set of actual entities that are past situational trusts (set T).

The final phase in the concrescence of the new actual occasion B is that of *anticipation*, in respect to the necessities which it lays upon the future to embody it in the concrescence of future actual occasions. Thus the actual occasion is initiated by an enjoyment of the past as alive in itself and is terminated by an enjoyment of itself as alive in the future. We may now consider one such future actual occasion affected by what is by now the complex actual entity B'. That is the actual occasion D which is either the co-operative behaviour or otherwise of the man Y in regard to the other man Z. This is affected by the prehension of the level ii) complex actual entity B' (the level i) actual occasion B), along with the prehension of the set of actual entities (set C) as a co-operation threshold C. The co-operation threshold is an example of a dominating impression arising from the intuitive fusion of a number of characteristics of individual members of a set of actual entities (in this case set C) discussed above. There is no direct relation between the co-operation threshold and the complex actual entity B' (that was the actual occasion B), since they are contemporaries - one does not require the prior existence of the other. They are indirectly related, however, since they each share certain actual entities which inform the coming into being of both. The separateness of C from B' is possible because "the immediate activity of self-creation is separate and private, so far as contemporaries are concerned" (AI:195). The valuation of subjective forms contrives to provide both the threshold and the type of situational trust which, depending upon their values affect the concrescence of the level ii) actual occasion either as co-operative behaviour or unco-operative behaviour of man Y towards man Z. This whole process of the concrescence of consequent and contemporary actual occasions occurs on the part of Z also, such that the level iii)

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situational trust A, of the individual Y, which concresces as the new situational trust B belonging to Y, and pertaining to the other individual Z.

actual occasion is the action resulting from the combination of Y's behaviour toward Z and Z's behaviour toward Y.

To summarise, this section has located trust within a theory of process, as derived from Whitehead's Philosophy of Organism. It has given a description of the basic elements in process theory and their inter-relation, before integrating the key factors noted in trust development with the key driving elements of process as conceived by Whitehead. This enabled a detailed application of process theory in the form of a theoretical description of the processes determining the origination of the actual occasions involved in the development of trust, its interaction with the co-operation threshold, and the development of co-operative behaviour and co-operative action. The description of this micro process of trust development has been possible because of the adoption of a processual meaning structure which enables a mode of thinking beyond the static conceptualisations of everyday thought. This (at least initial) exploration of trust-in-process therefore also refutes Luhmann's argument, that any attempt to take into account the impact of both time *and* the consequent implication of processual development on trust "leads us into a territory so difficult and obscure that we cannot map it out..." (1979:10).

## **CONTRIBUTIONS OF THE THESIS**

Further to the specific contributions made and detailed in each chapter, the thesis provides four general contributions to research, as follows.

i. It has illustrated the utility of the principle of demonstrable applicability, whereby a theory's ability to explain a complex social and sociological phenomenon is repeatedly assessed through the use of a variety of research methodologies within one epistemological position across a variety of separate, yet related, field settings.

ii. It has highlighted the complexity of what at first glance appears to be the relatively simple phenomenon of trust, and developed and refined an operationalisable theory of trust and co-operation in

the small business. This may be used to unpack and explain in detail the role of interpersonal trust in a variety of business and social settings, and yet, by its specific identification of separate trust and co-operation criteria, still retains within it the capacity for further refinement.

iii. It has explored the relative importance of a number of different trust types identified as operating in interpersonal interactions in the small business and empirically illustrated their role and effect, thereby highlighting a number of ways in which different trusts in different interpersonal relationships may affect small business development.

iv. It has meaningfully integrated trust theory within a theory of process, and thereby enabled a reconceptualisation of trust theory in such a way as to accept the philosophical presuppositions of Whitehead's Philosophy of Organism as described in the theoretical application. This is instead of it being constrained by the more common static, yet arguably fallacious epistemologies of orthodox scientific research that have underpinned either explicitly or implicitly the majority of previous conceptualisations. While this makes a significant contribution to the development of trust theory in itself, it brings with it the added implication that it may be possible to not only provide a reasonable integration with process theory, as given here, but also a philosophically rigorous repositioning of trust within a process metaphysic. While this is unquestionably the subject of study in another discipline, it is felt that the work presented here has gone some way toward its enablement.

#### **LIMITATIONS AND AREAS FOR FURTHER RESEARCH**

In spite of the contributions of the research presented in this thesis, there remain a number of limitations regarding the field studies. While already considered in detail as appropriate in each of the relevant chapters, these broadly concern: a) the source of the data in the first stage study; b) the nature of the second stage study company; c) the nature of the observation and reporting adopted in the second stage study; and d) the restriction of the third stage study to the initial investment decision domain. To take each in turn, with regard first to the source of the data in the first stage study, an enlargement is

required to include a wider and more generally representative sample population of entrepreneurs than that enabled by a specific study of graduate entrepreneurs who made a study of venture creation. With regard next to the nature of the second stage company, its industry location and flat structure may have rendered it more prone to an inherent emphasis on trust relations than others, thus requiring further study of other companies in different industries in order to establish the nature, role and effect of trust in different industries. With regard to the nature of the observation and reporting adopted in the second stage study, problems centre mainly around the fact that this was entirely the responsibility of the author, since this brought with it the complication that there was no possibility for third party verification. The adoption of a multiple-researcher approach, in which either two individuals collected the data and/or interpreted the data separately, may generate a feeling of 'objectivity' which many may feel more comfortable with. In the light of the discussions in Chapter II, however, I would argue that even these would, in practice, boil down to a common denominator of opinion best described as the shared subjective-objectivity of the authors. With regard lastly to the restriction of the third stage study to the initial investment decision domain, this prevented any considered understanding of the development of trust relations further into the investment decision process. This may be remedied by study of later domains, probably most effectively by ethnographic approaches similar to those adopted in the second stage study. Such modifications as these may be summarised as attempts to move toward a series of studies that are more definitive, rather than the indicative purpose of the initial and tentative explorations reported in this thesis. To what degree these extensions would be practicable, however, remains open to question, since they would each require quite privileged access.

Turning now to the further development of the theory of process and its application to trust, a number of research questions may be asked, which appropriately parallel those originally posed in respect to the theory of trust in Chapter III. Thus, in terms of a) the conformation phase, b) the intermediate phase, c) the anticipation phase, does the process theory of trust development derived from Whitehead's Philosophy of Organism proposed above appear to represent the process of trust development in the trusting individual (e.g. the informal investor) in respect of another individual (e.g. the entrepreneur) over the course of an interaction? In addition, d) more generally, how accurate is the

process theory of trust development derived from Whitehead's Philosophy of Organism at representing the development and decline of interpersonal trust in the small business setting? Furthermore, there also remains the potential for the explicit location of trust theory within a robust metaphysical framework, requiring a more rigorous excavation of the metatheory of trust itself than that possible here.

Just as the small business has been the vehicle for an illustration of the applicability of a theory of trust as an explanatory framework for social interaction, so that same theory of trust has been the vehicle for an illustration of the applicability of a general theory of process to sociological phenomena. It follows that the opportunity exists for the application of this general theory of process to other theories which provide explanations of sociological phenomena seen as affecting social exchange, such as agency (a current *de rigeur* theory in studies of informal venture capital, for example, but which I would argue is ultimately and inescapably reducible to an outcome of Reliance-Based or Confidence-Based Trust), authority and power (which, as was briefly hinted at in Chapter I, may both be reasonably considered as arising as a result of the generation and reconfirmation of trust relations). The same can also be said of further applications of the research approaches adopted in this thesis, since they provide not only a means by which to map, for example, network or power relations, but also a means by which to access the minutiae of their development at the level of the interpersonal interaction within a group setting, such as the small business.

Lastly, two further extensions to the research reported in this thesis present themselves. First of these is a more explicit sociological study of the impact of self-trust. The incorporation of self-competence as a co-operation criteria, it will be remembered, came about as a result of the empirical work of the third stage study, and enabled an acknowledgement of the importance of self-trust in the investment decision process even given an explicit decision to refrain from a theoretical discussion of the work in psychology on self-trust. This decision was made in order to avoid getting embroiled in psychological studies that contradict the epistemological position of the thesis, not to mention their involving procedures with which the author has no knowledge (see also Chapter V). An explicit study of self-trust using similar research approaches to those adopted in this thesis would enable a further

examination of the role of self trust as a key element in determining the co-operation of (especially) the entrepreneur in small business and the enablement of his own entrepreneurial action. It would also allow the distinction between trust and co-operation established in this thesis, in terms of trust development being determined by a host of situational cues (identified in Dibben, 1994; see also Chapter I), and enabling co-operative behaviour by overcoming a co-operation threshold established by the individual as a result of their perception of a definite set of co-operation criteria, to be maintained. The recent work of Lehrer (1997), concerned as it is with self perceptions of one's own knowledge, reasonableness and competence in a given situation, may go some way to establishing a specific theoretical frame for self-trust outwith psychology, which would be essential for such a study.

Second, the growing popularity of high-trust societies and low-trust societies as explanations for differences in economic success of different cultures such as between Japan and the UK, as discussed in Chapter I, provides an opportunity for international extensions of the research undertaken in this thesis. This is in order to a) examine the efficacy of such explanations of economic success by studying the development of trust at the interpersonal level within companies in different countries, and assessing whether and to what extent the nature of the development of trust relations is different in so-called high-trust societies as compared with low-trust societies, and b) extend in particular the work of such writers as Casson (1990), Eisenstadt and Roniger (1984), Fukuyama (1995) and Sako (1992, 1995). Such an extension might involve, for example, the adoption of similar research approaches as used here to matched pairs of companies by industry, size or performance and/or matched situations by issue and interacting individuals. It would, furthermore, enable the necessary further refinement of the theory of trust developed in this thesis.

## **FINAL THOUGHTS**

The central argument of this thesis, proposed in Chapter I and developed throughout, has been that trust is central to the activity that goes on in the small business. In order to explore this, the thesis has involved itself in a study of trust, types of trust, the varying roles of those types of trust and the

effects of those types of trust in a number of small business situations. It has also explored, theoretically, the development of trust in an individual, in order to attempt to gain a philosophical and sociological understanding of the micro-processes involved in interpersonal trust development that remained unaccessed following the field studies. Even bearing in mind the fact that the thesis is an intentionally indicative and not definitive piece of research, its findings do allow the assertion that interpersonal trust development is a prerequisite for business development.

Adopting Whitehead's nomenclature of process, we may conclude that the continuation, pervasiveness and importance of interpersonal trust in and across situations arises from the creative urge that transcends the actual occasion such that, upon concrescence, it is immediately part of the universe of entities which affect the concrescence of future occasions. It follows that the dynamism that is the trust experience arises from the continuing creativity of new trusting occasions, just as the dynamism that is the entrepreneurial action-in-process arises from the continuing creativity of the entrepreneur, which brings about the concrescence of future entrepreneurial occasions. Adopting Anderson's definition of entrepreneurship (1995), trust is therefore the medium through which the entrepreneur is able to engage in the process of creating and extracting value from his environment.

In reviewing this final statement and all that has led up to it with the benefit of hindsight, I am compelled to pause and reflect, finally, on Sir Arthur Conan Doyle's caution to the student, embodied in that famous (but too-often fatally misquoted) dialogue between Dr Watson and Sherlock Holmes (1894).

*'Excellent', I cried. 'Elementary', said he.*

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## *Appendices*

## **APPENDIX 1**

**“Appendix 1: Pilot Study Questionnaire Design” (Source: Harris and Dibben, 1995)**



## **APPENDIX 2**

**Supplementary Questions Exploring Sources of Finance and Advice (reduced)**



## **APPENDIX 3**

### **Additional Business and Personal Information Sheet**

# CONTEXT INFORMATION

Interview No.: \_\_\_\_\_

Date : \_\_\_\_\_

## BUSINESS INFORMATION:

1. No. Employees: \_\_\_\_\_
2. Turnover (£,'000): 10 - 50  50 - 100  100 - 200  200 - 500  500 - 1m   
1m - 5m  5m - 10m  10m - 50m  50m+
3. Year of first idea \_\_\_\_\_
4. Year of start-up \_\_\_\_\_
5. Industry (SIC) \_\_\_\_\_ ( \_\_\_\_\_ )
6. Description of business idea \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. Business Form: Sole trader  Owner-Manager  Family Business  Family Owned   
Private  Ltd  plc  Partnership  Subsidiary  QUANGO  Other \_\_\_\_\_

## PERSONAL INFORMATION:

8. Age: 16 - 20  21 - 25  26 - 30  31 - 35  36 - 40   
41 - 45  46 - 50  51 - 55  56 - 60  60 - 65  66+
9. Family circumstances: Single  Partnered/Married  Divorced   
Dependent Children: 0  1  2  3+
10. Ethnic Background: \_\_\_\_\_
1. Formal education to: Secondary  Highers/As  University/college  Postgraduate
2. Own Work Background: \_\_\_\_\_  
\_\_\_\_\_
3. Work Background of parents / influential family: \_\_\_\_\_  
\_\_\_\_\_

## BUSINESS PERFORMANCE:

4. In your own terms, do you believe that the business has been:
- Very Successful  Quite Successful  Satisfactory  Dissappointing  Very Dissappointing
5. What is the basis of this assessment? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



## **APPENDIX 4**

### **Supplementary Interview Sheet Exploring 'Most Important People' in the Business**

# Interpersonal Relationships in the Business

Interview No.

Who are the most important people in the development of the business?

Of these, who are the most important?

How would you describe your relationship with them?

How do you treat the advice/views/opinions that each gives you?

What important things do you allow these people to bring in for the business?

## **APPENDIX 5**

**Main Interview Sheet (reduced)**

## **APPENDIX 5**

**Main Interview Sheet (reduced)**



## **APPENDIX 6**

Anonymised version of a report provided for CW, a customer of SC,  
as part of the trust building process engaged in during the Second Stage Study Research

**The Impact of Counselling Provision on Employee Absence:**

**A Comparison of CW Sick Rates**

**with Demand for SC Counselling**

**A Report based on data for the eight months to the end of August 1996**

Mark Dibben

- Findings:**
- 1. Counselling is being used by at least some of those employees who are off work sick. It is being used most for this purpose by those in PT2, PT4 and Supply.**
  - 2. Counselling is being used by employees upon their return to work. It is being used most for this purpose by those in PT1, PT2 and PT3.**

Prepared for SC Management Consultants.

24th October 1996

## **The Impact of Counselling Provision on Employee Absence: A Comparison of CW Sick Rates with Demand for SC Counselling**

### Aim

To compare CW employee sick rates at the company's plant with demand for SC counselling services, for the eight months to the end of August 1996, in order to establish any correlation between the two sets of data as a means of assessing the effectiveness of SC counselling service.

### Method

Absence Figures for January - August 1996 (as supplied by CW) were superimposed on graphs showing Demand for Counselling, January - August 1996 (as given in SC "Annual Statistical Report, Employee Support Programme, CW , 1 January - 31 August 1996"), in order to enable a visual comparison of the trends in the data. Off-site counselling and on-site counselling were examined separately, since their impact on absence was assumed to be different. That is, where off-site counselling may help employees return to work sooner than would otherwise be the case, on-site counselling may prevent absence from occurring in the first place. It was decided to use that proportion of the absence figures representing unauthorised sickness absence since this was felt to be the group most likely to utilise the counselling services (authorised absence included doctor and dentist appointments, for example). Each of the production teams identified in the CW absence figures were examined separately in order to highlight any specific correlations that might indicate any predominant use of the counselling service by a particular production team.

The analysis therefore comprised twelve investigations:

1. Percent of the total workforce sick c/w demand for counselling off-site;
2. Percent of the Production Team 1 workforce sick c/w demand for counselling off-site;
3. Percent of the Production Team 2 workforce sick c/w demand for counselling off-site;
4. Percent of the Production Team 3 workforce sick c/w demand for counselling off-site;
5. Percent of the Production Team 4 workforce sick c/w demand for counselling off-site;
6. Percent of the Supply workforce sick c/w demand for counselling off-site;
7. Percent of the total workforce sick c/w demand for counselling on-site;
8. Percent of the Production Team 1 workforce sick c/w demand for counselling on-site;



9. Percent of the Production Team 2 workforce sick c/w demand for counselling on-site;
10. Percent of the Production Team 3 workforce sick c/w demand for counselling on-site;
11. Percent of the Production Team 4 workforce sick c/w demand for counselling on-site;
12. Percent of the Supply workforce sick c/w demand for counselling on-site.

Where Production Teams 1 and 2 are the two original production lines, Production Team 3 is a new automatic production line, Production Team 4 is the back shift characterised by a younger workforce and odd working hours, and Supply is the packing hall. Graphical representations of each of these investigations, plus written comments, are given in the Appendix.

### Findings and Discussion

Nine of the investigations yielded at least some level of visual correlation, with only three (investigations 6, 10 and 11) providing no discernible correlations. Two types of correlation were detected in the data, as follows:

#### *1. Month on month correlations*

Month on month correlations were found when sick absences were compared with demand for off-site counselling. That is, high absence corresponded with high demand for off-site counselling, and vice-versa. This was especially so in the case of total absence rates for the workforce (graph 1) and the last third of PT2 (graph 3), with some correlation for the first half of PT4 (graph 5). There appeared also to be some correlation, month on month, between on-site counselling and absences in the last quarter of Supply (graph 12). This was felt to be coincidental, however, as such a correlation would imply people going off sick and coming on site to have counselling (see also 'Limitations', below).

#### *2. Lagged correlations*

Lagged correlations were most prevalent in on-site counselling scenarios, and indicated a use of counselling by those returning to work both in the company in general and more specifically in PT1 and PT2 (graphs 7, 8 and 9). This lag was also apparent in the use of off-site counselling by employees in PT3 (graph 4). With regard to the other off-site counselling investigations, there is some indication of a positive lag in PT2 such that, for example, demand for off-site counselling in one month lead to a decrease in absence in the following month (graph 3). Whilst this is encouraging in the first instance, since it indicates counselling may be having a positive effect on absence rate, the investigation in question also yielded a strong month on month correlation in the last third (see above). This compromises the validity of the lagged correlation, as one would not normally expect a different type of correlation in one investigation without an identifiable - and irregular - change in circumstance (other than the predictable seasonal variable seen in all the other investigations).

Lastly, there appeared also to be some correlation at one month's negative lag in PT1 implying, for example, that counselling sessions in January were adversely influencing absence rates in February (graph 2); that is, high demand for counselling in one month was leading to high absence rates in the following month. This was felt to be coincidental, however, not least because it would imply that counselling was leading to absence, rendering the correlation nonsensical in the light of the earlier findings reported above.

### Limitations

Three limitations are noted in assessing the validity of the findings. First, visual correlations of the type undertaken are only an initial, rough measure. This is illustrated by the fact that three of the investigations yielded illogical correlations (graphs 2, 4 and 12), and is especially the case where the two sets of data under comparison use different parameters (i.e. in this case percentage of unauthorised sick and numbers of employees using the counselling service). Second, the findings are limited by the inaccuracy inherent in a sample consisting of a small number of individual data points. Third, the data available only provided information on absences, so no indication of the effectiveness of counselling as absence prevention was possible in the study.

### Conclusions

Even accepting the limitations discussed above, the fact that all but four of the investigations yielded some meaningful correlations suggests two conclusions may be tentatively drawn from the findings, as follows. Month on month correlations of absence and off-site counselling demand would indicate that **counselling is being used by at least some of those who go off work sick**. This appears to be the general case across the company, but is especially so with regard to employees in PT2, PT4 and Supply. There is, however, no direct indication that counselling is returning people to work, as might be indicated by trends of a fall in the numbers off sick, for example, the following month. This is unsurprising as there is an acknowledged seasonality in sickness absence. There was not sufficient data available to enable longer term positive effects regarding general decreases in absence to be discerned. In addition, lagged correlations of absence and on-site counselling demand would indicate that **counselling is being used by individuals upon their return to work**. Again, this appears to be the general case across the company, but is especially the case with employees in PT1, PT2 and PT3.

### Suggestions for Further Study

Two areas for further research readily present themselves. First, an investigation utilising a longer time period may help in a more meaningful assessment of the direct impact of counselling provision on absence. It is suggested that this would require at least two years' records, which would have the added benefit of improving the accuracy of the findings by introducing a larger number of data points. Further investigations should also be conducted using identical parameters for both sets of data in order to improve accuracy (see 'Limitations', above), while an investigation of 'average days off sick' would enable verification of the one month's lag identified most often in on-site counselling, indicating a return to work within one month of going sick. Second, this study has not been able to assess the value of on site counselling as

absence prevention. One means of addressing this may be to conduct a longitudinal stress audit to measure stress levels over time in production teams and individuals utilising the counselling service.

With specific regard to stress auditing, although it is recognised (in spite of no direct evidence from the data used in this study) that staff in Production Team 4 appear to be utilising the counselling provision more frequently than other groups, stress auditing would enable more accurate identification and assessment of those production teams most frequently using the counselling service, and therefore also allow corrective action to be taken by the customer to improve the situation, where possible. More accurate assessment of the counselling service may also be achievable by the use of questionnaires given to those client employees who are undergoing and who have undergone counselling, although it is again suggested that this would only become meaningful if applied longitudinally to allow clients to reassess the value of the counselling received at pre-determined (e.g. three month and six month) intervals.

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## **Appendix**

### **Graphical Representations of the Twelve Investigations, with Comments.**

[The nature of the data presented in this appendix is such that it would have been impossible to include in this version without revealing the identity of the companies concerned. MD]

## **APPENDIX 7**

### **Papers, Articles and Other Publications Undertaken as Part of the PhD Process**

*Joint-Authored Papers and Journal Articles Relating to the PhD.*

At What Stage Does a New Venture Become an Organization? (with M.G. Scott) Paper at the Fifth Global Entrepreneurial Research Conference, Salzburg, March. 1995

Escaping the Normative Rational Straightjacket in Strategic Management Research. (with S. Harris) Paper presented at the First European Academic Consortium for Management Studies Research Seminar. University of Groningen, Holland, July. 1995

Exploring Interpersonal Trust in the New Venture: Qualitative Applications of a Computational Trust Formalism. (with S. Marsh and M.G. Scott) Working paper. 1996

Back and Here Again: Towards the Development of a Philosophical Entrepreneurship. (with R. T. Harrison) Paper at the Sixth Global Entrepreneurial Research Conference, London, July. 1996

The Role of Trust in the Inter-Organizational Relations of a Small Firm: An Analytical Illustration. (with R. T. Harrison) Paper presented at the Seventh Global Entrepreneurship Research Conference, Montreal, June. 1997

The Role of Trust in the Business Angel's Investment Decision Process: An Exploratory Analysis. (with R. T. Harrison and C.M. Mason) Entrepreneurship Theory & Practice Special Issue: Informal Venture Capital. 1998 forthcoming

*Other Papers, Reports and Journal Articles Undertaken as Part of the PhD Process.*

Briefing Note: SMEs and Policy in the UK and Japan. (with M.G. Scott and P.J. Rosa) Provided for speakers at 12th Annual Meeting of UK-Japan 2000 Group. London, 16-18 March 1996.

Parkinson, Cyril Northcote (1909-1993). (with I. Glover) Entry in 'International Encyclopaedia of Business & Management' (Ed. Warner, M.) London: International Thomson Publishing. 1996 *with permission*

The Attitudes of Dominant Religions to Enterprise in England and Japan: An Introductory Comparison. (with S. Drakopoulou) Paper at the Sixth Global Entrepreneurial Research Conference, London, July. 1996

Additions as 'Critique': Some Thoughts on Boisot and Griffiths' "Time to Market Versus Time to Think". (with S. Kodithuwakku) Paper at the Sixth Global Entrepreneurial Research Conference. London, July. 1996

Background Papers: Entrepreneurs, Entrepreneurship and Small Firms. (with P. Neal) Provided for speakers at the CONTACT Consensus Conference: Entrepreneurs - are they born or made? Scottish Borders Enterprise, Melrose, 4 October 1996. *with permission*

Some Thoughts on Alsos and Kolvereid's "The Business Gestation Process of Novice, Serial and Parallel Business Founders". Paper presented at the Seventh Global Entrepreneurship Research Conference, Montreal, June. 1997

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## **APPENDIX 8**

### **Criteria for Identifying Trust Types Derived in Chapter III**

### *Faith-Based Trust*

Faith-Based Trust is that trust which exists between two individuals in a temporary group. As with each of the situational trust types, therefore, it is most recognizable by "the context in which the negotiation is embedded" (Sheppard and Tuchinski, 1996:161). The temporary group context will consist of:

1. a group of people with diverse skills who have a limited history of working together, so that trust is conferred *ex ante*;
2. a definite aim and a deadline, creating an atmosphere of 'crisis';
3. the need for continuous interrelating between the individuals to produce an outcome;
4. a co-ordinator, who has a trusting relationship with the other members that is not based on Faith-Based Trust.

Faith-Based Trust will develop quickly and be strong enough to last the lifetime of the temporary group. If the relationship continues after the end of the temporary group, it will become Dependence-Based Trust. During the temporary group period, an individual may feel increasingly that there are similarities between himself and the other individual. It is suggested, therefore that 'sub-trusts' may develop that resemble one of the other four trust types in the typology (eg. Faith-Based Trust that resembles Confidence-Based Trust). The previous experience of the temporary group may, therefore, speed the trust development, so that transitions from Dependence-Based Trust to a Reliance Based Trust, for example, may happen more rapidly than had the relationship developed under more normal circumstances.

### *Dependence-Based Trust*

Dependence-Based Trust is that trust which forms between two individuals after a period of initial interaction, during which time each assesses the other's trustworthiness in terms of his integrity, benevolence and ability, combined with an assessment of both the risks involved in establishing a trusting relationship, and of the potential outcomes. It follows that, once the trusting relationship has been established, it relies on a frequent exchange of values. Dependence-Based Trust may be said to exist when at least three of the following four criteria are discernible:

1. between individuals who do not know each other well, leading to arm's length transactions, and in situations where there is low knowledge intensiveness;
2. where one is more aware of the differences between the individuals, than of their similarities;
3. in situations of low risk<sup>1</sup>, as recourse to punishment is easily available since the relationship is heavily bounded and regulated, for example, by contracts (Lewicki and Bunker, 1996:124-5);
4. where, consequently, there is more 'value' to be lost by ending the relationship than by remaining in it.

When there is no value to be gained by continuing the relationship, then either the relationship will discontinue (a common characteristic of Dependence-Based Trust relationships) or it will continue, having altered to one of Reliance-Based Trust, because of the knowledge gained of the individual or of

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<sup>1</sup> as perceived by an observing party. For the individual involved, such situations may be perceived as high risk (because of the lack of knowledge of either the situation or the individual), which he is able to diminish by engaging in, for example, contractual obligations. In this case, therefore, the real locus of trust may be argued to be in the contract, or the punishment available, should the Dependence-Based Trust in the other party be violated.



the situation. Dependence-Based Trust is most common between individuals who are simply buying from and selling to each other.

#### *Familiarity Reliance-Based Trust*

Familiarity Reliance-Based Trust may be said to exist when at least three of the following four criteria are discernible:

1. when an individual feels he knows the other well as a result of previous interactions in different situations, and can therefore predict his behaviour, irrespective of the lack of comprehensible situational cues;
2. in situations which are novel to one or the other, or both, individuals;
3. where one is increasingly aware of the similarities between the individuals, rather than the differences;
4. where the relationship has developed beyond simple arm's length transactions, so that the risk of loss (of the friendship) allows for single trust violations to be discounted.

#### *CSQ Reliance-Based Trust*

CSQ Reliance-Based Trust may be said to exist when at least three of the following four criteria are discernible:

1. when an individual feels he knows the situation well as a result of previous interactions with different people in similar situations, and can therefore predict the behaviour of the other party, based on their shared situation-specific knowledge, irrespective of the lack of familiarity with the other party;
2. in situations which, therefore, are not novel to either individual, and in which there may be a willingness for the other to deputize for them;
3. where one is increasingly aware of the similarities between the individuals, rather than the differences;
4. where the relationship has developed beyond simple arm's length transactions, so that the risk of loss (of the business relationship) allows for single trust violations to be discounted (cf. Dependence-Based Trust)

In the case of both Reliance-Based Trusts, they illustrate the development of a relationship beyond the Dependence-Based Trust relationship that existed initially. This is not to say that the exchanges of 'value' have stopped, but that the relationship is founded on a "different conceptual paradigm" (Lewicki and Bunker, 1996:125).

#### *Confidence-Based Trust*

Confidence-Based Trust may be said to exist when, after a period of further investment in the relationship, at least three of the following four criteria are discernible:

1. a clear identification with the other individual is apparent;
2. the parties have a history of interaction in a wide number of different situations and there is consequently a high level of knowledge intensiveness and familiarity with the other party;

3. the individuals are willing to engage in high risk<sup>2</sup> situations, and allow the other to deputize for them in non-routine exchanges with other individuals;
4. the individuals are willing to ignore trust violations that would affect the nature of the relationship, were it based on either dependence or reliance trust types.

As with the transition from Dependence-Based Trust to Reliance-Based Trust, the transition from Reliance-Based Trust to Confidence-Based Trust also involves a change in the conceptual paradigm (from one of shared knowledge to one of mutual empathy and self identification) which the individual has of the other individual in the relationship.

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<sup>2</sup> as perceived by an observing party. In this case (cf. Dependence-Based Trust in 'low risk' relationships, above), the individual's knowledge of the situation and of the other individual will mean that he perceives the risk as being quite small - evidence of the confidence he has in the other person.