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Entrepreneurship as Trust

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ABSTRACT

Trust is a critical component of our relationship with others. It forms a basis of not only social relations but also economic ones. Trust is necessarily linked to entrepreneurship because it is useful in conditions of uncertainty. An entrepreneur needs to gain trust of others who cannot obtain full knowledge on what is being introduced to the market as well trust others such as partners, employees and suppliers to deliver on promises. This study aims to examine the role of trust in entrepreneurship. After reviewing the conceptualisation of trust, we argue that trust should be seen in the context of a wider-set of entrepreneurship-supporting values. We then explore different types of trust and their role in entrepreneurship, moving from particular trust to extended trust, ending with a discussion on how new technology is enabling entrepreneurs to create a new form of distributed trust between strangers.

Keywords: trust; values; uncertainty; entrepreneurship; effectuation; family business; new technology; blockchain.

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1

Entrepreneurship Emerges Under the Conditions of Uncertainty, to which Trust is a Response

As argued by Knight (1921/2009), handling uncertainty is a distinctive function of entrepreneurs. The space for entrepreneurship emerges when ambiguity present in the economic environment cannot be fully translated into risk: that is, ambiguity cannot be quantified and therefore cannot be insured against. Furthermore, the uncertainty is further amplified by an element of novelty associated with any new venture.

These conditions of uncertainty also explain why trust is central to any entrepreneurial activity. An entrepreneur needs to gain trust of others who cannot obtain full knowledge on what is being introduced to the market; and here the others are both potential customers, and those who provide resources to the new venture, including finance, work and skills, either as the members of the entrepreneurial team, or as employees. In these new relations of trust, the entrepreneur appears as trustee, yet s/he is also a trustor: building her/his business, s/he gradually places trust in other people on whose actions the venture development relies.[1] Thus, trust building is an important component of the entrepreneurial process: entrepreneurship is more than trust, but

[1] For the detailed discussion of the concepts of trustor and trustee, see Coleman (1990).

trust remains at its core. The latter reduces the (perceived) level of uncertainty (Mayer *et al.*, 1995) enabling entrepreneurial entry.

Welter (2012: 194) summarises the linkages between trust, entrepreneurship, and uncertainty:

> When pursuing entrepreneurial activities and trusting, individuals deal with the unknown; when acting entrepreneurially, we do not know whether we will achieve the intended results; and when trusting, we do not know whether the persons in whom we trust will be worthy of it.

Similarly, Möllering (2014: 14-15) notices:

> uncertainty, combined with vulnerability, is a general precondition for trust to be relevant /.../ we are not simply talking about bounded rationality but about radical, Knightian uncertainty which renders calculation impossible by definition (rather than by practical limitation).

Here, Möllering (2014) introduces another element to the discussion. If uncertainty cannot be reduced to risk, that also implies lack of calculativeness. He considers the role of calculativeness (and of utility maximisation) in individual trust, and questions the assumptions adopted by Williamson's (1993) transaction cost theory and other economists (e.g. Dasgupta, 1988; Gambetta, 1988) who conceive of trust as a purely rational, self-interested and calculative behaviour, where the possible gains from trusting behaviour are weighed up against risk of losses. In contrast with this, Möllering argues against reducing trust to calculative element.

When we accept this proposition, it renders serious implications for how we theorise entrepreneurship. If entrepreneurial decision-making cannot be reduced to calculativeness, this also implies that the utility maximisation is a model that cannot capture the phenomenon of entrepreneurship in full (McCloskey, 2006, 2010, 2016). Applying McCloskey's rhetoric: entrepreneurial values cannot be reduced to prudence (wealth maximisation), and if we accept this then our understanding of the motivation to enter entrepreneurship and to engage in entrepreneurial actions is richer. This applies less to other types of economic activity where uncertainty is lower; there the role of calculativeness may still dominate.

Thus, it is the phenomenon of uncertainty and of trust as response to uncertainty, which makes entrepreneurship a distinctively different domain of research compared with economics. The former has to be based on richer assumptions related to human action than the latter. This is also a reason why entrepreneurship remains a multidisciplinary field of study, as this review of entrepreneurship and trust will modestly exemplify.

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