Trust – the essential element of early stage entrepreneurship

Melanie Ashleigh[a] and Lorraine Warren[b]

[a] University of Southampton, contact – Email: mja@soton.ac.uk

[b] Massey University, contact – Email: l.warren@massey.ac.nz

Abstract:

Early stage entrepreneurs must engage in social processes in conditions of uncertainty and risk; in whatever capacity interaction exists, the concept of trust is a vital ingredient that contributes to entrepreneurial success. The complexity of trust is amplified during incubation stages due to inherent risk and uncertainty. Little research has empirically examined how trust is used during incubation where novel resources are accessed and exchanged, often mediated by influential actors in the incubator. Furthermore, little is known about the 'darkside' of trust within this domain, which can impede progress. Negative effects of trust can emanate from high trust, resulting in a lack of monitoring one's own and others needs and expectations. Or, when trust breaks down between actors and has to be repaired. This paper explores how trust is initially built, sometimes destroyed, and also repaired within and across several early stage start-up companies in their support context.

Keywords: trust, entrepreneurship, business accelerators, incubators, start-up processes, small firm

INTRODUCTION

Early stage entrepreneurs establishing new small firms have to engage and interact within an environment full of vulnerability, insecurity and risk; not ever being sure if their idea will take off, be taken seriously, or indeed be funded for ongoing development. Thus, the environment they experience at the beginning of their journey can often be a daunting place where they have little control over other people's thoughts or actions and yet they have to be willing to interact with a variety of actors in and across different social networks both formally and informally. They may feel fear, or come against conflict, as they have to take risks and make themselves vulnerable, trying to convince people across internal and external environments of their ideas in the hope and expectation that they're going to be successful.   In essence this resonates with the concept of trust as defined by seminal authors Mayer et al (1995):

> *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* (1995: 712).

Although the element of trust is a vital ingredient in early-stage entrepreneurship, little empirical evidence currently exists in this area, although some scholars (e.g.Welter and Smallbone, 2006; Welter 2012; Ratnasingam 2013; Scarbrough et al, 2013; Maxwell and Levesque, 2014) have indeed expressed the need to explore such avenues in more depth. Both these studies suggest that although the entrepreneurship and innovation literature has extensively acknowledged the importance of trust over the last ten years, it is still not clear how it is developed, what type of trust is relevant and under what conditions it survives and/or breaks down. Specifically Welter (2012) points to the need to study the duality of trust (see Möllering 2005) and its multi-complexity and recursive nature which will be different across a variety of contexts.

One particular context of interest is to consider entrepreneurs within the early stages of small firm creation, as this maybe where and when they are most vulnerable and yet also have to take the most risks, and thus be more exposed to trust issues as Scarborough et al, (2013) and Maxwell and Levesque, (2014) note in relation to deal-making. Some entrepreneurs respond to their challenges, at least in part, by taking part in incubation or acceleration programmes. Over the last two decades, incubators have been established to help entrepreneurs get started (Bruneel et al, 2012; Mian, 2014). Such programs are intended to provide inexpensive start-up environments and a range of consulting and administrative services for the emergent small firm. They are usually managed by financial agencies, local governments, local businesses and/or universities, all of which provide supportive connections   where entrepreneurs can share low cost space, equipment and build industry networks, often through known contacts. Incubation, however, it is not a panacea, nor is it always straightforward (Khavul et al 1998; Patton, Warren & Bream 2009; Flavel & Kalendra 2008; Warren, Patton and Bream (2009); Battisti and McAdam (2012)) . Patton, Warren and Bream (2009) argue that more focus should be placed upon the intangible qualities related to business support, rather than simply the space and equipment. Battisti and McAdam (2012) refer to the 'resource deficit' of social capital faced by emergent ventures and the role of incubation in addressing this challenge. Warren, Patton and Bream (2009)found, In a study exploring the factors that supported the commercialisation of business proposals in creating high technology start-ups, that significant success factors included careful management of internal and external social networks by influential

staff in the incubator. They found the need for newcomers to find opportunities for interaction where mutual trust and respect could be built. We would argue further, that as an intangible variable itself, trust is vital to any start up firm engaging with the incubation process of creating something new and is therefore worthy of more exploration. Warren, Patton and Bream (2009) too, note the significance of the relationship between the firm founders and the Director of the incubator in their study, with the maintenance of trust-based relationships between the Director and the firms an essential component of a productive incubation period. In this study, the Director played a significant role in configuring and managing network resources towards developing and maintaining proposal quality. This is a two-way process, in that incubator managers have to demonstrate success and therefore the selection of what they consider to be sound founder teams with whom they can build strong trust-based relationships is essential. When the relationship in not successful, the incubator can be placed in a bad light. This is an important and novel avenue for further exploration.

Discussing innovative firms, Ratnasingam (2013) too, argues that entrepreneurs cannot create in isolation and need to interact within others such as agents as in organizations, government and non-government institutions, academic institutions, all of which are made up of people who are pivotal in driving innovation across such systems. It is these interaction processes and the ability for humans to collaborate effectively at each stage and level of their progression, whether it be with an incubation support network, finance team, marketing firms or governing bodies that are responsible for their success – and key to this is being able to know when, who and where to trust others (Scarbrough et al, 2013).

Within the management and social science literatures generally, trust has been considered as an intangible resource and one that is difficult to measure. Early research has likened trust to tacit knowledge only residing in the mind (Muir et al 1996); a resource that only grows with use (Hirschman 1994), being fostered only when the right thing is being done (Rousseau et al 1998) and generally a concept that can only be understood when experienced and still difficult to explain to others (Kidd 2003). In light of the complexities and nuances of trust as an intangible quality we consider that it could either positively or negatively impact on the start-up process, depending upon how it is conceived, developed, maintained, lost and repaired, or even destroyed as the case may be, in the relationship between the firm founders and incubator managers. If trust was better understood and articulated in this relationship, in terms of how it helped or hindered actors during incubation, and at what stages of the process different types of trust were important, this could provide a positive insight into supporting new start-up firms during incubation and thus contribute both to the trust and entrepreneurial literatures.

The context for our study is an incubator, or business accelerator unit (BAU) that exists in partnership with a University. The BAU has to maintain both economic sustainability and trust in its operations with its host university in line with government policy directives. It must gain and maintain the trust of academic staff and students who may engage with the BAU in the hope of starting new endeavours. Furthermore, actors in the BAU must broker input, often pro bono, from a range of expertise providers such as accountants, financiers, marketers and other key agencies in their economic context.

Utilising a qualitative methodology, this pilot study explores the 'how to' in terms of having to make oneself vulnerable to the risks of accessing and mobilising resources at the early stage of a start-up,

in the hope that that risk will bear fruit in terms of its expected reward, despite uncertainty. Semi-structured interviews will enable exploration of trust at different levels of social networking within the early stages of an entrepreneurial process. Commencing with personal interactions; through to collective relationships (e.g. communities and outside agents), and including potential formal structures where governance and regulations are involved; the study investigates the perceptions, attitudes and behaviours attached to trusting at the micro, meso and macro levels in pursuit of entrepreneurial success.

This paper is now structured as follows. First, we review the importance of trust in terms of its duality. Second we present a short review of the literature pertaining to trust and entrepreneurship highlighting empirical studies. Third, we outline our methodology and participant group. Fourth, we will, when this work in progress is complete, present the findings of interviews/focus groups and discuss our results with reference to both trust and entrepreneurial theoretical frameworks. Finally the paper will conclude with the contribution that this study makes both to the trust, incubation, SME and entrepreneurship literatures and discusses the practical implications of the study for entrepreneurs embarking in start-up in the future.

LITERATURE REVIEW

The Duality of Trust

Even after more than fifty years of research across various domains no universally accepted definition of trust exists (Kee & Knox, 1970; Shapiro, 1987; Sitkin & Roth, 1993; Welter, Kautonen and Stoytcheva 2004). As Hosmer, (1995) confirms *'there appears to be widespread agreement on the importance of trust in any human conduct, but unfortunately there also appears to be equally widespread lack of agreement on a suitable definition of the construct.'* (p. 380, 1995).

What has been more widely accepted until fairly recently however is that trust is a positive construct, a concept that Gargiulo and Ertug (2006) names an *'optimistic bias'* (2006: 165) or that Sievers (2003) argues is *'a good thing and a necessary constituent of the social fabric'* (p. 356). One inherent ambiguity that is becoming more critically discussed is that there is a darker side to the construct of trust. Skinner et al (2013) argue that negative aspects of trust can arise when through the process of trusting, either party (trustor or trustee) are forced into '*an uncomfortable exchange dilemma from which it is difficult to extricate oneself; where the very nature of trust means that most of the options available as a response are neither viable nor attractive'* (2013:2).

Nonetheless, there are examples across several domains of the importance of trust in terms of; trust being vital in any effective working relationship (e.g. Colquitt, Scott & LePine 2007, Ashleigh & Prichard, 2012) and that trust positively affects organisational productivity and competitive advantage (McEvily et al 2003; Rosen et al 2006). Sengun (2010) argues that trust is important in initial creation of ideas to exhibiting competencies in problem solving activities across inter-firm relationships. Research also confirms that trust improves performance and that there is a positive relationship between trust and information sharing (Dyer & Chu 2000). These authors found trust strongly linked to lower transaction costs and low transaction linked to performance in the context of supplier/buyer trust across 3 different cultures in the car manufacturing industry. From this research, we can be fairly confident therefore that trust avoids repetition and duplication and reduces waste. Trust has also been found to increase co-ordination; commitment; co-operation,

knowledge transfer and performance in relation to teamwork (Ashleigh & Prichard 2012; 2011, Prichard & Ashleigh 2007), and has strong influences on knowledge sharing (Abrams et al 2003; Kramer 1999; Levin and Cross 2004), all of which are vital necessities within and between individuals wanting to start their own business.

Conversely, there are situations where one can have too much trust. This is especially concerning when trust becomes too high within teams as it may lead to group think (Janis 1982), where members think they are above question and invincible. Over-trusting may also stop team members from monitoring each other's needs and expectations (Enzle & Anderson, 1993; Langfred, 2004). Indeed scholars believe that some level of monitoring or 'heedful relating' is important during task performance to stop loss of team processes such as co-ordination and communication errors (Langfred 2004; Spreitzer, et al, 2005). Trust can also break down, and spiral downwards into distrust. Scholars researching volatile domains e.g. where national security is at stake (Jarvenpaa and Majchrzak 2008), found that some 'benevolent distrust' is likely to be a necessary part of mixed motive contexts where it can acts as a protective mechanism against deliberately misleading knowledge transfer. Others, (e.g. Ashleigh & Prichard 2012; Prichard & Ashleigh 2007) found that distrust within a team is likely to have a negative impact on all stages of the encoding cycle, when members are transferring knowledge to and from each other. One could envisage that distrust could therefore significantly impede progress and ultimately destroy the success of any start-up venture when entrepreneurs are relying on gaining and sharing knowledge of their business ideas across different social and formal networks. Zahra et al (2006) found this to be the case when studying new business creation in established companies. Battisti and McAdam (2012) found distrust between PhD entreprenurs and supervisory professors.
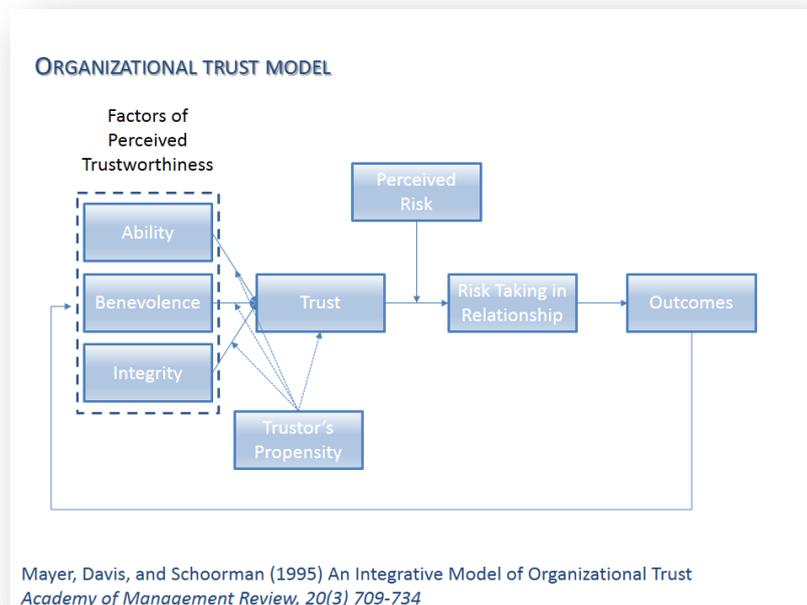
Skinner et al (2013) refer to how, even if non-deliberate, there may be situations where people suffer the unfortunate consequences of genuine trust processes; (e.g. they act in good faith, take the risk but are let down due to external circumstances). Notwithstanding this, trust is a dynamic cycle and relational (Mayer et al 1995; Schoorman et al 2007) so there is also room for processes to be deliberately maligned or manipulated, which Skinner et al refer to as a 'poisoned chalice'; (2013; p.2). This is a situation where, on the surface, outcomes may be seen as being positive and honourable, but may not be what one experiences, as either party may have underlying negative intentions and/or motives which may lead to break-down in the cycle and the emergence of distrust. Indeed Skinner et al (2013) assert that this dark side of trust is an inevitable factor of the dynamic cycle, as trust per se can only be ultimately defined as being positive or negative at the point of risk taking exchange.

We consider that such complex interactions and dynamics will be at work within an entrepreneurial start up process. Welter (2012) refers to some empirical studies of the dark side of trust at a macro level in terms of institutional inadequacies and distrust in business development (see De jong et al 2010; Tonoyan et al 2010), however there is a paucity of studies at the micro interpersonal level, and the meso organisational levels, or indeed the relationship between the levels. In light of past research therefore and in the interest of the duality of trust, rather than solely considering trust as always being benevolent and positive, (Garguilo & Ertug 2006), we believe it is pertinent to consider the darker side of trust and how and when it breaks down, how this affects actions and interactions and future progress between actors and agents, particular in incubator contexts. This would be a

novel contribution to the field of entrepreneurship, extending Zahra et al's (2006) work to a new context.

Entrepreneurs & Trust

Although we agree with Skinner et al (2013) in terms of not being actually able to say 'I trust' a. n. other until the point that risk takes place, we would also concur with the Mayer et al's (1995) model in that the decision to trust (or not), or indeed the decision to carry on trusting or declining is based on perceptions of characteristics or 'factors of trustworthiness' (ability, benevolence, integrity) of the trustee by the trustor. We include Mayer et al's original model in order to explain their conceptual reasoning in trusting others which they have used at individual, team and organisational levels of analysis. The decision to trust (or not) is based on the trustor's perceptions of the characteristics of the trustee together with their own propensity to trust (Mayer et al., 1995). Propensity will influence how much trust one has for a trustee prior to data on that individual being available. People with different developmental experiences, personality types, and cultural backgrounds for example vary in their propensity to trust (e.g., Hofstede, 1980). Perceptions of trustworthiness are antecedents of trust and are themselves based on beliefs across three distinct but related factors (Mayer et al); the trustee's ability, their domain-specific knowledge; their benevolence, referring to what extent the trustor perceives the other will act in their best interests, and their integrity - whether they are principled and likely to keep their promises – behave as they

Mayer, Davis, and Schoorman (1995) An Integrative Model of Organizational Trust
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say they will. These antecedents of trust (Mayer et al) include cognitive, affective and behavioural components (e.g. Cummings & Bromiley, 1996; Lewis & Weigert, 1985). Evaluating perceptions of others' trustworthiness and the level of risk required in considering how to behave is a rational, cognitive decision. Emotion however inevitably plays a part as feelings, both positive and negative, are associated with how perceptions of trustworthiness are formed, thus influences behavioural intentions (Schoorman et al, 2007). Furthermore, the outcomes of taking that risk and actually

deciding to trust the 'other' will affect the way in which people think and feel about trusting in the future in a continuous dynamic cycle, a point echoed by Maxwell and Levesque (2014).

How we form beliefs about trustworthiness factors however is initially either based on previous experience or social comparisons and stereotypes associated with cognitive cues such as race, age and professional identity (Li, Hess & Valacich, 2008; McKnight, Cummings & Chervany, 1998; Meyerson, Weick & Kramer, 1996). It is these cues that foster expectations about others' attributes such as role, status, honesty, ability, and cooperativeness (Chatman & Flynn, 2001; Levin, Whitener & Cross, 2006; McAllister, 1995). How expectations are formed therefore has a bearing on the risk exchanges that are going to happen within the dynamic cycle of trust development, a point made by Scarborough et al (2013) and Maxwell and Levesque (2014).

Considering the early stages of incubation for entrepreneurs and the processes associated with this risk, we argue that the role of these trustworthiness factors in developing trust highlights that focusing only on one factor i.e. competence, ignores the important contribution of beliefs about their benevolence or integrity and so is not giving a holistic picture of their process of trust. A contextual example could be the focus on one particular aspect of the process like deal-breaking, the ability of that individual in putting their idea forward or indeed how novel an idea they may have; none of which speak to their capacity for either integrity or benevolence. Howorth and Moro (2006) found ability is not a kind of competence trust: It is one of the elements that enables and enhances trust formation and development. Conversely, entrepreneurs appeared to have less trust in a bank manager where they perceived low levels of ability. In this study, these perceptions were developed in a small-town context where community involvement, such as charity work, schools, and local politics, as an important factor in assessing benevolence and thereby trust. Of course, entrepreneurship is not an individualistic activity, and people do not exist within a vacuum. As Jack and Anderson (2002) have shown, entrepreneurs are deeply embedded in social networks. Yet the small-town context may well be very different from the incubator context where, as Battisti and McAdam (2012) point out, budding entrepreneurs may well be in social capital deficit during new venture creation. Thus, in incubators they are constantly affected by the interdependencies of exchanges with many other individuals and teams across various professional and social levels (Bollingtoft and Ulhoi, 2005; Battisti and McAdam, 2012). This means entrepreneurs and incubator managers too will be subject to many social factors that will have an impact on their beliefs about the motivations of others to co-operate, co-ordinate and/or engage with in their quest of becoming successful. We therefore consider that it is important to try and capture beliefs about all three trustworthiness factors and how they are gained and lost within the start-up processes of entrepreneurs as well as considering the actual risk taking behaviours they engage with. We believe considering the whole dynamic trust cycle will give us richer and a more holistic view of trust within this context, and make a meaningful contribution to the literature in this area.

Within an entrepreneurial context it is also relevant to consider individual differences and how creative people may think differently as research suggests; where some see risk, entrepreneurs see opportunity (e.g. Busenitz & Barney, 1997; Sarasvathy, Simon, and Lave 1998). Baron (2000) suggested this may be due to entrepreneurs being less likely than other people to engage in investing time and effort imagining what 'might have been', they are less likely to experience regret over missed opportunities, and are less susceptible to inaction inertia. Such characteristics may possibly be linked to predisposition towards trust, as those with high predisposed trust are more

likely to take risks (Ashleigh, Higgs & Dulewicz 2012), as well as share knowledge more readily (Mooradian, Renzl & Matzler 2006). Whatever the reason, we know there is a strong interdependency between trust and risk taking (Mayer et al 1995). This may be especially true for these individuals who embark on the entrepreneurial process and to date, there appears to be a paucity of empirical research on exploring such areas (Welter 2012); and the studies that have been done, we have summarised in Table 1. In Welter's extensive critical debate surrounding trust and entrepreneurship, she calls for *'multi-level studies which analyse the duality of trust within and across different contexts, in particular within a process perspective and which explore the recursive links between trust and entrepreneurship*' (2012:205).

Table 1. Empirical Evidence of Trust and Entrepreneurship (Alpha & Chronologically listed)

Authors	Study	Type of trust
Maxwell & Lévesque (2014)	*Using real-time observations of entrepreneur and potential investors' interactions. Study using 'Dragons Den' observational interactions of 602 pitches between trustee-trustor to gain level of trust and decision to invest. How entrepreneurs' behaviour during an initial interaction with a potential investor can build, damage, or violate trust, and how the investor's level of trust based on entrepreneur's behaviour) can affect their decision to make an investment offer.*	*Behaviours relating to building, damaging and violating trust*
Scarbrough, Swan, Amaeshi & Briggs(2013)	*Study addressing the role of trust in the deal-making process using examples of early-stage technology investments and social ties of 27 entrepreneurs. Adopted grounded theory using retrospective critical incident techniques based on decisions to accept risk by pursuing or not pursuing particular ties in response to entrepreneurs' behaviours.*	*developed examples of institutional, characteristic and process based trust.*
Caliendo, M., Fossen, F., Kritikos, A., (2012).	*Large quantitative study using experimentally validated survey, from 2003, 2005 and 2008 household data taken from German Socio-Economic Panel (SOEP). Circa 22,000 individuals containing questions addressing the three variables measuring influences of trust and reciprocity on entrepreneurial entry and exit.*	*Various measures of generalised trust positive and negative reciprocity already within the household questionnaire (based on Fehr et al 2002).*

Helmhout, A.S., & Karabulut, E., (2006)	Case study investigating the extent to which institutional factors can limit entrepreneurial activity. Survey of 78 and 5 interviews in textile cluster firms in Turkey	Own 4 item general measure based on definition by Sako (1992) as a state of mind an expectation held by an economic agent about another, that the other responds in a predictable and mutually acceptable manner.
Howorth, C., & Moro, A (2006)	Interviewed 20 Italian entrepreneurs and six bank managers exploring the influence of trust on lending facility.	Levels of trustworthiness; ability, benevolence and integrity through information disclosure. (Mayer et al 1995).
Neergaard, H., & Ulhøi, J.P., (2006)	In depth historical retrospective case analyses using 5 Danish Furniture firms using interviews based on critical incident technique.	General trust, specific trust, knowledge-based trust, calculated trust & calculative trust (based on Lewicki & Bunker's 1996 framework)
Tillmar, M., (2006)	Two ethnographic comparative longitudinal cross-cultural case studies (Swedish & Tanzania) using observation & interviews.	Trust based on knowledge of someone's character, and on safeguards such as the availability of sanctions (Sztompka 1999)
Zahra, Yavuz & Ucbasaran (2006)	Literature review examining different stages of entrepreneurship in established companies exploring business creation processes (e.g. opportunity recognition, evaluation, refinement, championing, and implementation)	Critically examines positive effects and analyses negative effects of overreliance of relational trust for each stage of creation processes. Relational trust emanates from Lewicki, McAllister, & Bies, 1998 three stage trust development
Welter, F. and Kautonen, T. (2005).	Surveyed 197 enterprises in East and West Germany & 16 participating case interviews in examining trust for entrepreneurs seeking support to set up & develop their firm.	Examined personal, collective and institutional trust. (Hohmann & Malieva 2005; Williamson 1993)
Banks, M., Lovatt, A., O'Connor, & J., Raffo C., (2000)	Examination of trust within the context of risk via interviews and how it can be applied to 50 UK entrepreneurs in cultural industries	Notion of active trust (Giddens 1994)

METHODOLOGY

Our study is centred on a Business Accelerator Unit (BAU) which was established in 2005 on a university campus as a business incubator that would target start-ups commercialising intellectual property emanating from the research cluster surrounding the university and identify and develop joint research and commercialisation projects among local research institutions. It provides a shared workspace, business development expertise (through a 'crew' of around 10 specialist advisors). As well as day-to-day support, they also run accelerator programmes of various kinds, including liaison

with national programmes such as Young Enterprise and Start-Up Weekends. They connect a range of industry partners, investors and government programmes to the aspirant start-ups in their network. As such, they are influential in connecting the macro of government policy initiatives through meso network interactions to a range of interactions individuals need in the early stages of small firm start-up. To survive, BAUs must broker and sustain trust relationships between valued partners and aspirant start-up firms who may well be unknown to them. They must therefore be very cautious in who they admit to the network. Firms undeserving of the trust placed in them may well damage the BAU's reputation and in doing so, compromise the BAU's survival. This is a rich microcosm to study trust at the micro-meso-macro levels. The next question is, how do we measure or assess the degree of rust.

Scholars have differed over the years in their judgement of how to measure trust and it seems that the jury is still out on this debate. Some (e.g. Ring and Van de Ven, 1994) suggest that analysing events is more effective than measuring attitudes as they tell us more about what happened giving rise to how or when trust develops or not. Others (e.g. Smallbone & Lyon 2002; Welter & Smallbone 2006) argue that quantitative data on trust is difficult to collect; because you cannot attach a number as to how you behave. Rather Welter & Smallbone argue that surveys should focus on *'investigating the nature and the extent of trust-based business links and relationships while a more qualitative approach is needed in order to explore the emergence of trust-based relationships as well as the circumstances in which trust may be lost'* (2006: 469). Others argue that trust is better observed reflecting on actual decisions and behaviours such as trust building, trust damaging and/or violation behaviours (Maxwell & Lévesque, 2014). Using observational data from the popular Dragon's Den series, these authors found that the more trust building interactions between entrepreneurs and potential investors lead to actual offers, whilst trust violation behaviours led to instant dismissal of the candidate. Some authors (e.g. Ashleigh & Nandakhumar 2007; Cummings & Bromiley 1996) indeed consider that the use of the word 'trust' explicitly in measuring, not only is culturally insensitive as semantics and nomenclature may be different across different cultures, but also it can create participant bias; reasoning which led Cummings & Bromiley's to reject the word 'trust' when developing their Organisational Trust Inventory. Adopting this idea, Ashleigh & Nandakhumar investigated trust within a highly volatile and sensitive domains and found shift workers formed their own constructs of trust by talking about their interactions, thoughts, feelings and behaviours within and between teams members and when interacting with their technology.

Following this protocol, we therefore intend to develop interview questions based around the three factors of trustworthiness (competency, integrity and benevolence, Mayer et al 1995) in order to tap into people's perceptions of such factors. We will also ask questions surrounding attitudes to risk as well as explore how individuals behave when they believe they are being treated fairly, let down or when their expectations are or are not being met; how do they act, what do they do, would they ever deal with those people again; how do those actions make them feel? etc. Thus, we will word questions carefully to explore the issues and factors surrounding trust in incubation processes without actually using the word 'trust'. This does not mean that participants will be wilfully deceived as they will be aware of the project proposal and will be asked if they want to voluntarily engage in a research project in exploring the concept of trust within entrepreneurial start up processes and so will be fully aware of the aims of the study.

OUTCOMES

At the time of writing this paper, work is still in progress and we expect to present initial findings in July.

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