



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



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ABSTRACT

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

1. Introduction

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

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

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2. Stakeholders and trust in the new venture creation context

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

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

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

3. Trust and factors of perceived trustworthiness

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

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

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

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

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

of negative outcomes, ability, integrity and/or benevolence will be reassessed, leading to lower perceived trust by the trustor. Therefore, perceived trust is an ongoing assessment.

Based on a review of the Mayer et al. model, and integration with the above stakeholder theory literature, we delineate multiple propositions that apply in the new venture creation context. First, Mayer et al. suggest that trustor propensity to trust is related to trust in trustee prior to availability of any information or experience with the trustee. This is exactly what separates trust in new business startups from trust in ongoing relationships. This is one of Mayer et al.'s original proposed relationships. Thus, in the absence of a relationship it would be expected that propensity to trust would dominate trustor perceptions of trust. However, relational interactions between the trustor and trustee, and subsequent outcomes, should yield additional information that increases the role of ability, benevolence, and integrity over time.

Proposition 1. In the new venture creation context, initial trust in a trustee is related to a trustor's propensity to trust, as well as—over time—the trustor's perceptions of the trustee's ability, benevolence, and integrity.

Mayer et al.'s conceptualization and original propositions suggest that benevolence will be the last of the trust dimensions to have impact, although the impact will increase over time. It seems plausible that benevolence attributions, initially, may be harder to form than those for ability (which can be observed early on) and integrity (which can be inferred early on from relational interactions). Thus, attributions of benevolence would have low effect on trust perceptions early but would increase over time as enough information becomes available to assess benevolence. Overall, we suggest that ability and integrity attributions are easier to form than benevolence attributions, in the absence of existing data. As interactions between the trustor and trustee increase, we suggest that benevolence perceptions, then, play a larger role.

Proposition 2. In the new venture creation context, perceived ability and perceived integrity have a stronger effect on initial trust formation relative to perceived benevolence.

Proposition 3. In the new venture creation context, the effect of perceived benevolence on initial, and subsequent, perceived trust will increase over time as relationships develop.

3.1.1. Stakeholders' intensity and locus

Typically used typologies of stakeholders like financiers, customers, and employees often result in a categorization that may have large variance in trust perceptions within each group. A more fruitful approach may be to develop characteristics of stakeholders that might better explain trustor perceptions of trust. Here, considering the context of trust is important. Unpublished work by [Pirson and Malhotra \(2007\)](#) examines two additional intriguing contextual facets of trust among stakeholders—namely, using survey responses from 1298 stakeholders across four organizations, they found that different dimensions of trust were related to both intensity of relationship interaction (high vs. low) and locus of presence (internal to the venture vs. external) of stakeholders. While there was not a direct test of each trust dimension on the intensity and locus dimensions, these two new dimensions may represent a useful way to characterize stakeholders. Their results also suggest the strong plausibility that different trust dimensions are more relevant for different stakeholders/trustees—in particular, results here indicate differential results based on intensity and locus for the ability and benevolence dimensions of trust. Given the difficulties of stakeholder management in new business startup situations, creating 'types' of stakeholders according to these characteristics could facilitate an entrepreneur's ability to establish and maintain trust in specific relationships.

[Pirson and Malhotra \(2007: 9\)](#) suggested that intensity and locus would affect "...the ability of the stakeholder to obtain information that mitigates risk perceptions." Consistent with our approach to stakeholders' perceptions of trust as an attribution process, this suggests that low and high intensity stakeholders and internal and external stakeholders may use different trust dimensions to form their perceptions of trust. For example, in the absence of frequent and in depth exchanges (low intensity relationships), there is less information for the attribution process and uncertainty is higher (i.e., information asymmetry; [Pollack and Bosse, 2014](#)).

In contrast, situations with high intensity are characterized by more frequent and in depth interactions between the trustor and trustee—this typically would happen with those stakeholders who are internal to the venture or those who are external but building an interrelated relationship (e.g., financiers). In these situations information is available faster and in greater quantity and depth for the trustor to use to assess trustee worthiness. This reduces the need for trustors to use propensity to trust as the foundation for attributions of perceived trust in trustee. While integrity remains important, stakeholders will now seek consistency in trustee actions, reflected in benevolence that allows more reduced uncertainty for the trustor and closer attachment or 'identification' between the trustee/entrepreneur and stakeholder. [Pirson and Malhotra \(2007\)](#) noted effects of both benevolence and integrity (in that order) for high intensity stakeholders. [Matuleviciene and Stravinskiene \(2015\)](#) also noted significant effects of benevolence on employees, a stakeholder group typically associated with high intensity interaction.

Proposition 4a. The effects of ability, integrity, benevolence and propensity to trust on perceived trust vary by the relationship intensity (high vs. low) of the stakeholder.

Proposition 4b. The effects of ability, integrity, benevolence and propensity to trust on perceived trust vary by locus of presence (internal vs. external) of the stakeholder.

4. Discussion

4.1. Implications for theory

Extant theory regarding stakeholders and trust is not highly generalizable to the domain of new venture creation—new venture creation represents a context in which entrepreneurs are typically seeking the very first, initial, engagement in a relationship with a stakeholder. Accordingly, managing for stakeholders and establishing trust in a nascent venture is markedly distinct from doing so in an established venture. Accordingly, we address this issue in the present work and provide essential respecifications to the stakeholder theory and trust literatures.

For the stakeholder theory literature we provide the needed respecification that theory regarding managing stakeholder relationships needs to account for the stage of the venture. This should fundamentally alter how researchers approach stakeholder relationships in new ventures. Regarding the trust literature, we demonstrate that trust building, in the initial stages of the new venture context, is unique. That is, the question of what dimensions of trust are important changes when there is no established relationship on which to base perceptions. We show that trustor propensity as well as perceived ability and integrity may play a more prominent role relative to benevolence, early in the new venture life span.

Furthermore, we provide a contextualized categorization framework for stakeholders—specifically, they can be categorized based on intensity of relationship (high vs. low) as well as locus of presence (internal vs. external). Overall, the ability to keep the motivations, and needs, of each stakeholder in mind demands an exceptionally high appreciation for the mindset of each stakeholder—and, for aspiring entrepreneurs who already manage myriad roles and responsibilities, the prospect of keeping each stakeholder in mind throughout the day is implausible (Fisher et al., 2017; Wincent and Örtqvist, 2009). This categorization framework may prove to be a useful theoretical advancement.

4.2. Implications for practice

For the entrepreneur, stakeholder management is critical as there are many relationships to build among financiers, customers and employees, and trust affects the quality of each relationship. Consider an entrepreneurs' typical day. They meet with prospective customers. They send messages and/or call interested financiers. And, they possibly interview new employee candidates. Switching from one conversation to another puts great strain on the roles entrepreneurs play in their venture—and, we know this creates stress (Wincent and Örtqvist, 2009). Thus, the ability to 'tailor' trust development to stakeholders, depending on stakeholder characteristics, could greatly facilitate stakeholder management in new venture creation.

One of the most enduring findings in trust research is the importance of propensity to trust. Propensity to trust has been consistently found to be related to trust, especially when the trustor has no experience with the trustee as is the case in new business startups. Since it is not plausible for entrepreneurs to 'choose' critical relationships only with high propensity to trust stakeholders, they must manage or influence the perception process of the trustor. Propensity to trust (as related to a specific dyad) can be affected by experience over time. Here, our theory-based propositions about the perceptions of trust in new business startups provide some guidelines for entrepreneurs seeking to build trust in critical stakeholder relationships. In particular, entrepreneurs should seek to foster perceptions of ability and integrity early on. And, as relational interactions increase, then perceptions of benevolence may emerge.

4.3. Limitations and future directions for research

The present work is limited in that it does not yet develop specific insights regarding the needs and characteristics of each stakeholder group. For example, future research is encouraged to explore how the different trust dimensions of ability, benevolence, and integrity affect key stakeholders' development of initial trust—i.e., for customers, financiers, and employees. Although we do not feel that the current state of research on trust in new business startups allows for the development of specific differential propositions for each of these three groups, we found a limited number of studies from which we might infer how trust dimensions possibly relate to stakeholder characteristics for entrepreneurs in the new venture creation context.

In a review of existing literature, Matuleviciene and Stravinskiene (2015) sought to substantiate the impact of trust dimensions on specific stakeholders' trust. Their review concludes that ability has important impacts on customer, employee, and shareholder trust. Benevolence was noted as having significant impact on customer and employee trust. Integrity was found to relate only to shareholder trust. While this study evaluated trust in existing organizational contexts with a focus on organizational trustworthiness, it does suggest links between the factors of perceived trustworthiness and characteristics of stakeholders that may be useful for entrepreneur-stakeholder trust development. Future work is needed here—and, along these lines, research might prove fruitful regarding the dimensionality of ability, specifically. For example, Pirson and Malhotra (2007, 2010) found differential effects for different 'types' of ability—managerial and technical as a function of intensity and locus of stakeholder. Thus, researchers may want to further specify the type of ability as it affects trust perceptions.

Specific stakeholder-centric questions emerge from the present work. For customers, promising areas of future inquiry can focus on how customers judge ability. Is ability best communicated via referrals from existing customers versus other sources? Is ability judged best using past accomplishments or demonstrations of future possible achievements? Regarding financiers, we need to know how different types of financiers judge integrity (e.g., banks vs. VC's and angels, vs. friends and family). Also, we need to know the best ways for entrepreneurs to communicate integrity (e.g., via actions, via testimonials, via the business pitch). For potential

Table 1

An overview, with illustrative examples, of stakeholder-centric areas for future research.

Stakeholder	Primary Research Focus	Illustrative Research Examples	Possible Correlates and Moderators
Customers	Does the entrepreneur instill perceived and/or demonstrated <i>ability</i> in the customer?	In what various ways do customers judge entrepreneurs' ability?	Ability
		–	–
		Do customers evaluate entrepreneurs' ability in terms of a current specific specialized capability and/or based on past achievements?	Customers' trust propensity
		–	–
Financiers	Does the entrepreneur instill perceived and/or demonstrated <i>integrity</i> in the financiers?	What affects customers' evaluations of entrepreneurs' ability?	Source of customer's information about the entrepreneur (e.g., media, friends, referrals for existing customers)
		–	–
		How does customer acquisition affect new venture emergence?	–
		–	–
Employees	Does the entrepreneur instill perceived and/or demonstrated <i>benevolence</i> in the employee? And, in this situation, in the typical trustor-trustee model appropriate or does each have characteristics of both (i.e., the entrepreneur could be the trustor)?	How does the entrepreneur instill trust during the pre-launch or design phase?	Integrity
		–	–
		How does financial support affect new venture emergence?	Financiers' trust propensity
		–	–
Employees	Does the entrepreneur instill perceived and/or demonstrated <i>benevolence</i> in the employee? And, in this situation, in the typical trustor-trustee model appropriate or does each have characteristics of both (i.e., the entrepreneur could be the trustor)?	In what various ways do financiers judge entrepreneurs' integrity?	Past investment experiences with entrepreneurs
		–	–
		How can entrepreneur most effectively communicate integrity (e.g., action, pitching, testimonials)?	–
		–	–
Employees	Does the entrepreneur instill perceived and/or demonstrated <i>benevolence</i> in the employee? And, in this situation, in the typical trustor-trustee model appropriate or does each have characteristics of both (i.e., the entrepreneur could be the trustor)?	What affects financiers' evaluations of entrepreneurs' integrity?	–
		–	–
		Do various types of financiers evaluate integrity differently (e.g., family friends, banks, Angels, Venture Capitalists)?	–
		–	–
Employees	Does the entrepreneur instill perceived and/or demonstrated <i>benevolence</i> in the employee? And, in this situation, in the typical trustor-trustee model appropriate or does each have characteristics of both (i.e., the entrepreneur could be the trustor)?	In what various ways do employees judge entrepreneurs' benevolence?	Benevolence
		–	–
		What signals can entrepreneurs send to employees that the employees' needs and desires are important?	Employees' trust propensity
		–	–
Employees	Does the entrepreneur instill perceived and/or demonstrated <i>benevolence</i> in the employee? And, in this situation, in the typical trustor-trustee model appropriate or does each have characteristics of both (i.e., the entrepreneur could be the trustor)?	What affects employees' evaluations of entrepreneurs' benevolence?	Past employment experience with entrepreneurs
		–	–
		How do employment agreements affect new venture emergence?	–
		–	–
Employees	Does the entrepreneur instill perceived and/or demonstrated <i>benevolence</i> in the employee? And, in this situation, in the typical trustor-trustee model appropriate or does each have characteristics of both (i.e., the entrepreneur could be the trustor)?	What affects employees' evaluations of entrepreneurs' benevolence?	Cultural norms (e.g., individualism vs. collectivism)
		–	–
		How do employment agreements affect new venture emergence?	–
		–	–

employees, future work can explore what signals entrepreneurs can send that will entice prospective employees (e.g., past history with employees, employment contracts, employee handbooks). And, we need to know how these signals are best sent—in-person, virtually, phone references, etc. These possible areas of research are summarized in Table 1.

In terms of bridging multiple domains, our model may fruitfully be applied to the unique setting of family businesses, where trust is a building block of family social capital, enabling efficient exchanges among family members (Mitchell et al., 2011). Family social capital often is passed from one generation to the next in a family business as a founder may pass business contacts and reputation (i.e., ability) to children starting a new family venture (Miller et al., 2016). Perceived integrity of the entrepreneur by financiers may be associated with integrity of existing or prior family businesses. Enticing family members to join a start-up venture may be based upon years of interactions and perceived benevolence.

One additional area for future work surrounds to concept of justice in entrepreneur-stakeholder dyads. Bosse et al. (2009) provide theoretical links between trust formation and justice perceptions in existing ventures (i.e., distributional, procedural, interpersonal, and informational; Colquitt et al., 2001). Here, extant work has already examined procedural justice in entrepreneur-investor dyads and multiple exciting lines of inquiry could explore how initial trust formation in entrepreneur-stakeholder dyads

evolves based on justice-focused perceptions (Sapienza and Korsgaard, 1996). For example, work here could examine the role of trustors and trustees. The typical approach is to examine entrepreneurs as the trustees—however, it could be that with particular stakeholders the entrepreneurs becomes the trustor, perhaps with employees. And, embedded within the trustee-trustor relationship, justice perceptions may play a role in predicting important antecedents of initial trust in relationships.

4.4. Conclusion

Overall, the literature provides precious little insight as to how trust within the new venture context initially gets established among entrepreneurs and their earliest stakeholders. This, we assert, is due to the fact that extant trust-oriented literature (a) focuses on relationships where a history exists, and (b) focuses on relationship where the trustor and trustee are easily identifiable and stable over time. We mitigate these issues and demonstrate how we can use the Mayer et al. framework to explore initial trust among entrepreneurs and their key stakeholders. This, thus provides a needed theoretical respecification to stakeholder theory and the trust literatures that can facilitate multiple compelling new lines of future research with both theoretical and practical value.

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