1042-2587

How Much Do You Trust Me? The Dark Side of Relational Trust in New Business Creation in Established Companies

Shaker A. Zahra
R. Isil Yavuz
Deniz Ucbasaran

Entrepreneurship in established companies centers on new business creation that is essential for profitability and growth. Yet, it is a complex process that is riven with technical, organizational, and political uncertainties. In this article, we explore the role of trust in the new business creation process in established companies. While there is agreement that trust is conducive to entrepreneurial activities in these companies, research on the dysfunctional effects of trust on new business creation initiatives has been sparse. We contribute to the literature by discussing the various stages of the business creation process (focusing on opportunity recognition, evaluation, refinement, championing, and implementation) in established companies, examining the positive effects of relational trust on each of these stages, and analyzing the negative effects of overreliance on relational trust for each stage. We conclude by highlighting the key managerial and theoretical implications of our analyses and by outlining promising avenues for future research.

New business creation is important for the continuous success, profitability, and growth of established firms (Burgelman & Valikangas, 2005). These companies often need to venture beyond their existing businesses to overcome competence traps that preclude them from adapting to their environments (Ahuja & Lampert, 2001; Zahra & Hayton, in press). In order to create new businesses, established companies have to combine their existing (or new) resources in new ways (Schumpeter, 1934). These recombinations can open new paths for building new skills, renewing operations, or venturing into market arenas within existing or new industries (Garvin, 2002).

The process of new business creation in established companies is costly, time consuming, and complex because it involves formal and informal activities across multiple

Please send correspondence to: Shaker A. Zahra, tel.: 612-626-6623; e-mail: szahra@csom.umn.edu at the Center for Entrepreneurial Studies and Strategic Management and Organization Department, Carlson School of Management, University of Minnesota.

levels within the organization (Garvin, 2004). It is also laden with information asymmetries where different people in different parts of the organization control specialized knowledge that they do not always share (Zahra, Nielsen, & Bogner, 1999). The gestation period for new business ventures is frequently long, taking years to pay off (Van de Ven, Venkataraman, Polley, & Garud, 2000). New business creation also requires the participation of different groups with different outlooks and perspectives (Garvin, 2004; Kanter, 1985). These conditions make formal monitoring and controls difficult and costly. The complexity of the analyses involved in new venture creation, the interdependencies that develop across organizational units, and the different information that different groups control highlight the role of trust as a useful mechanism in managing the interdependencies and uncertainties encountered in recognizing, evaluating, and exploiting new business opportunities (McEvily, Perrone, & Zaheer, 2003). Relation-based trust promotes cohesion, unity of direction, and cooperation that facilitates the introduction and acceptance of new business ventures.

Trust has been defined differently in the literature. Most definitions view trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (Rousseau, Sitkin, Burt, & Camerer, 1998, p. 395). Trust becomes relevant when people become dependent on and vulnerable to the actions and decisions of others (McEvily et al., 2003). These people possess and control different types of knowledge, view the purpose of the organization differently, have different motivations in supporting new business creation, and often differ in the evaluation of new business opportunities. When ambiguity and social complexity surrounds decision making, traditional organizational control systems may fail to bring about or sustain an effective alignment of interest among these people. Relational trust that is grounded in mutual respect and shared interests could be an effective complement (Mellewigt, Madhok, & Webel, 2004; Poppo & Zenger, 2002) or supplement (Das & Teng, 1998) to these organizational controls. Still, developing and maintaining trust takes time, effort, and resources (Jones & George, 1998). Reliance on trust in the absence of sufficient controls can also increase errors of judgment, obscure rational decision making, and discourage entrepreneurial risk taking.

Objective and Contributions

The objective of this article was to examine the functional and dysfunctional roles of relational trust in new business creation in established companies. We argue that relational trust plays an important role in surfacing, recognizing, refining, evaluating, selecting, and institutionalizing new business venturing initiatives. While the literature touts the positive effects, relational trust can have serious negative effects on new business creation as well. Consequently, we analyze the various stages of new business creation and discuss the potentially adverse effect of relational trust on each.

We add to the literature by showing the limits of relational trust as a social mechanism that supports the initiation and institutionalization of new ventures in established companies. Research has long advocated the need for autonomy and corresponding relational trust as a means of stimulating the recognition and incubation of ideas (Zahra, 1991). Relational trust enables employees to capitalize on their skills and competencies. It is also essential because traditional valuation methods cannot fully and accurately capture the complexity associated with new venture creation in established companies (Van de Ven et al., 2000). The payoff from these ventures is also hard to measure a priori, complicating analyses of the risk–return relationship.

The next section of the article discusses the multiple and iterative stages in the process of new business creation in established companies. Next, it considers the concept of trust and its various dimensions. The article then highlights the positive and negative effects of relational trust in each of the new business creation stages. The final section of the article outlines the managerial and theoretical implications of relational trust for new business creation and highlights questions worthy of further research.

New Business Creation in Established Companies: Stages and Challenges

The literature emphasizes the importance of new business creation for established companies' growth and profitability (Garvin, 2004; Van de Ven et al., 2000; Zahra, 1991; Zahra, Neubaum, & Huse, 2000). Yet, little attention has been given to the process by which new businesses are created within established companies (Garvin, 2002; Van de Ven et al.). The scarcity of research on the topic stems from the complexity of the processes involved and the long gestation period of many of these initiatives. Many ideas for new business also develop informally (Burgelman, 1983a, 1983b; Garvin, 2004), making it difficult to observe the processes and actors involved.

Established companies go through several iterative stages as they create new businesses (Garvin, 2002, 2004; Van de Ven et al., 2000). While there is no agreement on these stages in the literature, Table 1 captures the most widely recognized. In the *recognition stage*, new business opportunities are identified by individuals or groups of individuals. Prior experiences and organizational skills and needs often influence the types of opportunities people and groups notice (Zahra, 1991). Some companies develop formal

Table 1

Stages in New Business Creation

Stages	Characteristics	Sources
Opportunity recognition	• Iterative • Informal	• Individuals • Groups • Networks • External
Opportunity evaluation	• More formalized but have informal elements • Requires considerable foresight and judgment • Championing is crucial	• Mostly internal • Business units • Divisions • TMT
Refinement and framing	• Social influence is high • Political positioning is needed	• Networks (friendships)
Championing	• Mostly informal, but sometimes management selects champions	• Middle managers • Other well-established leaders in the system
Initiation and institutionalization	• Mostly formalized • Value creation from venture • More permanent link in structure • Learning from experience • Replication and diffusion of new business • Connection to other units to gain synergy	• New business ventures • TMT

TMT, top management team.

processes that help identify and define such opportunities (O'Connor & Rice, 2001). Other companies rely on informal and even accidental discoveries by employees (Garvin, 2004). Since the nature and size of opportunities are frequently unclear, "innovators" rely on the informal appraisal and feedback of their colleagues and other members of their professional and personal networks. When making their evaluations, innovators rely on their understanding of organizational norms and needs (Pinchot, 1985). This informal evaluation is usually followed by the *refinement stage* where selected ideas are revised and repositioned to make them more attractive to the firm's management. In this stage, new venture ideas should be positioned on technical and political grounds. Technical positioning means clarifying the scope of the opportunity, the potential synergies between the new business and existing business(es), financial and other resource requirements, and the skills needed to exploit the opportunity. Political positioning means making the business idea salient and attractive to senior managers. The *championing stage* involves finding capable and well-established individuals who will lead the venture or simply make it attractive and accessible to the firm's senior management.

Ideas that are well positioned technically and politically are likely to get the attention and consideration of the firm's senior managers during the *evaluation stage*. These ideas undergo multiple reviews. Once an idea receives formal management approval and support, resources are allocated for its initiation and implementation. At the *implementation stage*, action plans are made and milestones are set to guide the venture's decisions. Decisions are also made at this stage about the location of the new business within the firm's structure. Next, successful ventures enter the *institutionalization stage* where they are permanently placed within the formal organization. Formal reviews gauge these new ventures' performance and progress in meeting their objectives. Still, some companies may choose to spin off some ventures while retaining an ownership stake in them.

Different actors with different motives, incentives, and political agenda take part in the various stages of new business creation (Burgelman, 1983a, 1983b; Garvin, 2004; Van de Ven et al., 2000), as indicated in Table 1. Moreover, moving from one stage of new business creation to the next is neither assured nor predictable. Organizational politics and cultural norms often shape these moves. Managers' taste and receptivity to ideas for new ventures also vary across organizational levels and time, making it difficult to foretell the fortunes of these ventures. Venture champions also change on the basis of career accomplishments and life goals, influencing the extent to which they sell and pursue their ideas. These realities make it difficult to determine with clarity and foresight which ventures will gain managers' support, possibly encouraging politicking and organizational maneuvering. Under these conditions, traditional (economic-based) controls cannot reliably align the interests or actions of various actors. Relational trust can effectively induce and sustain such an alignment, fostering new venture creation activities.

The Positive Effects of Relational Trust on New Business Creation in Established Companies

Relational trust can have a significant impact on organizational attitudes and behaviors, such as cooperation (Axelrod, 1984; Jones & George, 1998; Mayer, Davis, & Schoorman, 1995), communication (Roberts & O'Reilly, 1974), problem solving (Zand, 1972), and performance (Barney & Hansen, 1994; Earley, 1986). Relational trust can also influence the support for and levels of entrepreneurship across sectors and national contexts (Höhmann & Welter, 2005; Stull & Aram, 2005; Welter, Kautonen, Chepurenko, Malieva, & Venesaar, 2004). Indeed, relational trust can facilitate risk taking (McAllister, 1995), promote employees' innovativeness (Clegg, Unsworth, Epitropaki, & Parker, 2002), and enhance proactiveness in the discovery and pursuit of new business opportunities (Stull & Aram, 2005).

Trust is a complex concept that has multiple forms and exists in diverse contexts (Kramer, 1999; Nooteboom, 2002; Rousseau et al., 1998; Tsai & Ghoshal, 1998). There is convergence in the literature that trust involves a willingness to be vulnerable (Barney & Hansen, 1994; Mayer et al., 1995; Rousseau et al.) positive expectations regarding another's motives and/or conduct (Das & Teng, 1998; Lewicki, McAllister, & Bies, 1998), and mutual interdependence and risk (Das & Teng, 1998, 2001; Gulati, 1995; Mayer et al.). Though other classifications of trust exist, two are most widely acknowledged: calculative and relational. Calculative trust is grounded in a person's evaluation of risks versus returns in a relationship. Relational trust, however, is based on the social interactions that take place between two or more individuals. Where relational trust prevails, people become more interested in maintaining their social interactions while de-emphasizing potential losses or gains. In this article, we focus on relational trust that is grounded in the social interactions that occur within groups and networks.

In established companies, reliance on relational trust can enhance economic activity by enabling and facilitating positive and productive interactions between and among people and organizations while reducing transaction costs (Nooteboom, 2002). Trust may also enhance the success of an economic transaction through its effects on the nature of social exchange (Korsgaard, Brodt, & Whitener, 2002). When management acts in a trustworthy manner, employees may wish to perpetuate and extend this positive relationship and to make greater contributions to the social exchange (Mayer & Gavin, 2005). This may manifest itself in the form of greater willingness to work harder to achieve organizational goals, innovate, or share information and knowledge.

Relational trust can also promote the achievement of a common purpose by ensuring sufficient cognitive alignment of perceptions, interpretations, evaluations, and goals (Nooteboom, 2002, pp. 23–29). Relational trust also facilitates the sharing of knowledge, which is central to the identification and exploitation of entrepreneurial opportunities (Venkataraman, 1997). Relational trust enhances frequent interactions among employees, thereby improving facilitation of effective and rapid knowledge sharing.

Reliance on relational trust also gives established companies several specific advantages in each stage of new business creation. The magnitude of these advantages vary from one company to the next, reflecting the idiosyncratic conditions that permeate its operations and the social structures that pervade their groups. In firms that have clear, well-established and communicated cultural norms, relational trust might magnify benefits associated with new business creation efforts. The opposite may be true when social structures are transient and relationships are loosely defined.

Recognizing Opportunities for Business Creation

Relational trust may increase entrepreneurs' confidence that management and coworkers will not take advantage of their openness (McEvily et al., 2003). As a result, they may more easily share their knowledge and participate in joint problem-solving activities, a key source of innovation and entrepreneurial ideas. Moreover, where relational trust prevails, the psychological contract with the organization is strengthened, and employees feel strong attachments to their firm. As a consequence, employees will invest time and energy in searching for or developing entrepreneurial ventures that improve their company's performance. Relational trust also enhances open communication and the effective sharing of ideas, enabling employees to discuss areas for improvement and organizational possible changes. Recognizing that management will not penalize them for faulty or poorly timed ideas, employees are more apt to share their ideas willingly—setting the stage for the effective evaluation and review of proposed new business ventures.

Evaluating New Business Creation Initiatives

In this stage, relational trust may expedite the informal evaluations made initially by colleagues and friends who believe in the quality or future potential of ideas offered by trustworthy parties. Members of the same network usually share a common history and know-how to provide useful feedback that can improve the odds of innovative ideas being formally accepted by management. Still, there is risk that such informal evaluators may become more open to and supportive of even extreme or risky ideas, since relational trust is likely to decrease their fear of failure. To counterbalance this tendency, formal and thoughtful evaluations are needed. Here, too, relational trust can be useful as managers are likely to be more positively disposed to support the ideas of those employees with credible track records, and who are considered reliable and trustworthy. Managers may also provide useful feedback that helps employees to refine their ideas, better positioning them for organizational acceptance.

Framing New Business Opportunities

In this stage, relational trust can lead colleagues to make honest evaluations and give beneficial feedback that improves the strategic positioning of the ideas. Refinement requires "give-and-take" and mutual knowledge sharing. Colleagues and managers are apt to share their doubts about the business idea when they trust that its developers are credible, will receive feedback in good faith, and then use that feedback to improve the idea. Of course, the amount and quality of feedback received and actions taken based on it depend considerably on the social dynamics that exist among members.

Initiating and Institutionalizing New Business Ventures

In this stage, relational trust enriches the new business creation process in several ways. For instance, relational trust increases the extent to which actors can depend on and predict each other's behavior. Under these conditions, the actors' ability to coordinate activities and their willingness to help each other increases. This increases cooperation that also facilitates the assembly of resources, hiring of key personnel, and putting the infrastructure together. Trust also makes the implementation of ideas faster by facilitating conflict resolution. If disputes or different interpretations arise, they are addressed openly and quickly since people trust each other's judgments. Relational trust also strengthens the actors' identification with and commitment to common goals and objectives (McEvily et al., 2003). As a result, the actors invest extra time and energy to ensure the success of the proposed business ventures. The actors do so because they are not concerned about being taken advantage of by others.

Relational trust also reduces the need for formal monitoring and control of the new business creation initiatives, possibly lowering the cost of implementation. It can also give employees more autonomy and flexibility in pursuing business creation activities. In turn, this increases speed and ease by which new knowledge is captured and shared (Young, Sapienza, & Baumer, 2003). This can help employees adapt and adjust their behaviors in ways that increase the success of the implementation of the proposed business ventures.

Trust in the benevolence of the senior management also enhances the acceptance of rules and procedures (Lind, Tyler, & Huo, 1997). It also increases employees' acceptance of the decision for permanently placing the new business within the formal structure (Tyler, Degoey, & Smith, 1996). It also becomes easier to share information about the progress of the venture with others in the organization, making the process of institutionalizing the new venture easier.

To summarize, during the various stages of the established company's new business creation process, trust can give the organization several economic (e.g., lowering costs) and social (e.g., increased commitment and solidarity) benefits. It can also promote the employees' satisfaction and increase their commitment, leading to successful new venture creation. Table 2 summarizes the key benefits to be gained from trust in each stage of new business creation.

The Dark Side of Relational Trust and New Business Creation Initiatives

Thus far, our discussion has illustrated the positive influence of trust on the various activities of new business creation in the established company. Clearly, relational trust can be an important social lubricant that makes things happen quickly and efficiently. It can also expedite the accurate sharing of knowledge. Relational trust also builds the social solidarity needed to take risks and introduce radical innovation into existing and change-resisting organizations.

Yet, reliance on trust can be excessive and can have negative effects by rendering economic relations too exclusive or by inducing rigidities and erecting barriers to creativity and innovation (Nooteboom, 2002). Excessive relational trust can also lead to serious errors of judgment. Deutsch (1973) argues that one source of excessive trust is naivety, ignorance, or cognitive immaturity. The consequence of this is that the individual does not develop a threshold of trust, which when exceeded should trigger the need to revise expectations, attitudes, and behaviors. Accordingly, an individual may ignore evidence that would falsify previous assumptions of trustworthiness (Nooteboom, 2002). Indeed, evidence that contradicts trustworthiness beliefs is considered suspect and ignored (Lewicki et al., 1998).

Relational trust also promotes overreliance on heuristics (Bazerman, 1998). Entrepreneurs and entrepreneurial managers have been associated with the use of heuristics such as representativeness and overconfidence to a greater extent than corporate managers (Busenitz & Barney, 1997; Wright, Hoskisson, Busenitz, & Dial, 2000). In environments where there is high uncertainty and limited information, these heuristics enable individuals to identify and exploit opportunities as well as to make decisions quickly. This latter feature can be particularly important in entrepreneurial settings when the window of an opportunity may be brief and a reluctance to act can result in the opportunity being missed. When heuristic-based information processing prevails, accuracy is often compromised. Further, Nooteboom (2002) explains how heuristics can result in an inability to adjust relational trust to changing circumstances. When events occur simultaneously, individuals may prematurely assign causality. Thus, an individual who relies on the "representativeness" heuristic may attribute trustworthiness on the basis of spurious characteristics that the individual happened to observe in conjunction with the experience of relational trust. The "overconfidence" heuristic may result in errors by neglecting the sample size of experience. Accordingly, individuals may overestimate the probability of

Table 2

Business Creation and Entrepreneurship in Established Companies: Positive and Negative Effects of Relational Trust

Steps		Positive effects	Negative effects
Opportunity recognition	Sources of ideas	• Familiar and easy to gauge • Encourages joint problem solving, generating new ideas • Trust in management: encourages employees to come forward with ideas • Fosters openness to new ideas	• Thinking alike: ignoring distant sources, strategic blindness, ignoring external environment • Looking on new sources with suspicion • Not considering alternatives
	Types of ideas	• More familiar and not necessarily radical	• Radically new ideas are examined with greater suspicions.
Opportunity evaluation		• Faster • Relationally based • Recognizes intangibles • Decreases uncertainty • Fosters openness to new ideas	• Lack of objectivity • Overconfidence and flawed evaluations • Overlooking due diligence • Overemphasizing intangibles, ignoring key economic considerations (more costly than expected)
Refinement/ framing		• Trust encourages knowledge sharing, which can be useful in refining ideas • Encourages advice giving • Early feedback can improve the framing and political positioning of ideas	• Greater attention to extension and refinement projects, while ignoring radically new projects • Support to ideas might be withheld from those emanating on the fringe of the organization
Championing		• Trust can encourage championing behavior and allow managers to gauge ideas • Trust can garner financial support or allow skunk work • Champions provide social support to entrepreneurs	• More likely to champion ideas emanating from the same group/clique
Implementation		• Cooperation and social support • Resource exchange • Faster implementation because conflicts are resolved • Agreement is easier to achieve • Disputes are addressed fairly quickly • People trust each others' judgments and abilities • People trust each others' commitment to their company • People trust each others' commitment to do what is best for the group • Managers are trustworthy • Cements psych contract and sense of loyalty to company. This can increase effort exerted to building new ideas • Encourages joint problem solving: easier implementation • Reduces redundancy in networks • Reduces monitoring costs • Easier to share and transfer knowledge: easier to define what is learned from success and failure • Easier to see limitations of what the firm knows	• Lack of effective controls • Shadowy enterprises may flourish (as in Enron) • Less feedback: less learning • Problems in knowledge transfer: undervaluing certain types of knowledge. Trusting knowledge created and shared by trusted others. Could lead to "not invented here" • People may take advantage of trust and act opportunistically • Cliques may form and reduce adoption of ideas/initiatives (family firms routinely exclude outsiders because they may not trust them) • Having higher expectations of trusted parties which might fail to deliver, creating dissatisfaction • Premature diffusion of ideas from one area to another

incidental occurrences and underestimate those of frequent ones. The "availability" heuristics entails a bias toward familiar experiences. This may encourage employees to use sources of information and opportunities that are familiar to them at the exclusion of other potentially valuable but less familiar sources.

Researchers have not been as attentive to examining the dark side of relational trust, focusing more on its positive effects. Instead, researchers have discussed ways that reduce chances of opportunism, and lower the probability of individual and group deviance while increasing focus on organizational goal accomplishment. Talking about these various mechanisms can help improve the chances that trust is well founded. But such discussions do not capture the various ill effects of relational trust on new business creation activities. Understanding these effects can set the stage for an informed discussion of intensifying relational trust and, as a result, the odds of successful new business creation efforts. Consequently, in this section, we pause and discuss the potential ill effects of relational trust within the various stages of new business development. Table 2 shows that the negative effects of relational trust could be felt in every stage of the new business creation process, even though these effects may vary from one company to another. These effects are also likely to differ within the same company on the basis of the stage, the nature of the new business being created, and the conditions surrounding its establishment.

Recognizing Opportunities for Business Creation

In the opportunity recognition stage, it is useful to differentiate between the *sources* and *types* of ideas for new business initiatives. Sources of ideas for these ventures could come from within the firm, either formally or informally (Burgelman, 1983a, 1983b; O'Connor & Rice, 2001). Ideas for the new business ventures might also come from external sources (e.g., suppliers or alliance partners), also formally or informally (Zahra, 1991). Where relational trust prevails, the company is likely to make greater use of informal internal and external sources (e.g., networks) to supplement or offset the limitations of any existing internal formal systems dedicated to opportunity recognition. When relational trust pervades the venture creation process, greater attention will be given to those sources within and outside the firm that are believed to be credible. Sources that are not familiar to decision makers, controversial, or viewed as not supportive of existing management or norms are likely to be overlooked, ignored, or even suppressed. As a result, search for opportunities for new business might be limited in focus, selective, and even biased. Given that controversial or unfamiliar sources are ignored, the search process is likely to reinforce a "thinking alike" culture, leading to strategic blindness where favored opportunities or those coming from well-known sources are not subjected to systematic or rigorous analysis. Reliance on the same sources in identifying and determining potential opportunities could also limit the variety of these opportunities, handicapping the firm's quest to break away from the familiar by venturing into new fields.

Ideas for new business creation could center on incremental or radical change. Incremental change means adding to the firm's existing businesses without venturing far afield from its strategic core (Zahra, 1991). Radical change centers on altering the very concept of business or the firm's strategic core or how the firm competes (e.g., changing its business model). Incremental changes are usually easier to evaluate and accept by management. These changes require skills that are usually readily available in the organization. The organizational structure could also accommodate these changes. In contrast, radical changes are harder to appraise and incorporate within the firm's ongoing operations or existing structures.

Where relational trust prevails, both incremental and radical changes are easier to accept and implement in the firm. The problem is that where relational trust becomes excessive, existing power centers are likely to favor ideas from well-known sources that they already know, value, and trust. The stability of these sources makes it less likely that they conceive and develop radical change that disrupts the status quo. Ideas for radical innovation often thrive at the margin and have to fight hard for management's recognition and acceptance (Kanter, 1983, 1985). Advocates of these ideas are often not well connected to the firm's power centers and may not enjoy the relational trust of the firm's leadership. These ideas are likely to be subjected to greater scrutiny and analyses, as discussed next.

Evaluating New Business Creation Initiatives

In this stage, one can see several manifestations of the ill effects of excessive relational trust on new business creation activities. As we state in Table 2, where trust dominates the process, analyses could be perfunctory and *ad hoc* in nature, failing to establish the strategic relevance and viability of the proposed business ventures. Decision makers might also show considerable favoritism to the sources they trust, as we have just suggested. Specifically, senior managers might sacrifice objectivity in their analysis and rely more on their intuition or shared experiences in appraising these ideas. Executives might also downplay the potential risks associated with the proposed projects while overstating their potential gains by overemphasizing the intangibles of these projects. These intangibles are hard to assess under the most normal circumstances. The value of these intangibles also varies on the basis of how they are used, further making it difficult to evaluate their strategic importance. This importance, in turn, is likely to change over time, and managers could use this to advocate (or sabotage) new business venture ideas. Decision makers, thus, may not exercise the due diligence necessary to establish the merits and limitations of the proposed business ventures.

Without rigorous analyses, the foundation for making effective decisions about the new business ventures to pursue and develop is undermined. Worse, as we propose in Table 2, managers might end up experiencing the "Abilene paradox," where they more or less agree on the same ventures without sufficient recognition of their limitations or without genuine commitment to their fate (Harvey, 1988). Excessive relational trust could discourage some managers from expressing their concerns or from questioning the assumptions and conclusions of the analyses conducted of these proposed ventures.

Another insidious effect of excessive relational trust is that employees and interested others watching how the firm makes decisions about new business ventures become discouraged as they conclude that political, not economic, considerations shape these decisions. When such beliefs take hold of employees, many become unwilling to suggest or champion new business venture ideas, possibly reducing the variety of the ideas presented to management. Over time, this could intensify inertia or perpetuate the "nearness trap" (Ahuja & Lampert, 2001), where the firm continues to search for ideas for innovation and new business in the vicinity of the knowledge and skills it already has. This reinforces the belief that those individuals who are overembedded in their social networks might become risk averse (Brass, Galaskiewicz, Greve, & Tsai, 2004).

Framing New Business Opportunities

Table 2 offers several additional reasons for companies' potential failure to escape inertia through new business creation, where trust becomes excessive. In the opportunity framing (i.e., refinement) stage, certain venture ideas are likely to receive considerable formal and informal feedback from the company's decision makers. The higher the relational trust these individuals have in the sources of the opportunity, the more detailed and forthcoming their feedback is likely to be. Yes, as we argue later, much depends on the social dynamics of the relationship. Higher trust could lead to less feedback and immediate acceptance of proposed ideas.

Relational trust encourages and facilitates the sharing of information, including negative feedback. This feedback can shape the fate of new business ideas by better positioning them for the firm's formal acceptance and implementation. Even when the feedback comes from informal networks, it could help connect the new business idea to the firm's dominant logic and managers' decision and mental models—expediting their formal acceptance by the organization. Ideas for radical business concepts are more likely to benefit from such feedback. The more feedback that advocates of these ideas receive, the more they can refine and reframe them and better clarify their connections to the firm's mission, resources, and skills. Ironically, while these refinements could enhance the odds of ideas for radically new projects' survival, ideas might lose their originality as their advocates seek to gain the support and commitment of senior managers. Champions may scale down their own ideas or redefine them in ways that will make them more organizationally and politically acceptable.

Changing the scope and scale of radical new business venture ideas is easier to do when champions come from existing power centers within the firm (Table 1). To retain their connections to decision makers, champions may ask advocates of new business ideas to compromise by changing their timetable, altering key design features, or even lowering cost estimates. Aware of the biases that govern the selection of new business ideas, some champions might hide key pieces of information from decision makers or might introduce the idea piecemeal to complicate its accurate evaluation. Still, champions need to maintain their credibility with decision makers and therefore may not support truly radically different ideas, unless the organization is facing a major performance crisis. Clearly, eager to maintain the trust that they enjoy throughout the organization, champions may favor those ideas that they believe managers like. Champions may not support radically different ideas for new business ventures.

Initiating and Institutionalizing New Business Ventures

Some of the most serious effects of excessive relational trust could be observed in this stage of new business creation (Table 2). For instance, relational trust could translate into informal, *ad hoc*, or loose controls that produce faulty or incomplete information about the progress being made. In turn, this could prevent managers and other key decision makers from providing the help or support needed to ensure effective implementation or to take corrective actions that reduce costs and keep the new project(s) on track.

The limited or misguided feedback that decision makers receive can also reduce individual, group, and organizational learning. New business creation initiatives are "real-life experiments" (Garvin, 2004) that provide participants an opportunity to learn by doing (Zahra et al., 1999). Feedback grounded in the actual implementation gives participants important clues about the best ways to introduce and organize the new business, and connect it to the organization. This information often becomes part of the firm's "organizational memory" and determines its future business creation efforts. Without timely, detailed, and accurate feedback, organization-wide experiential learning is likely to be limited (Garvin, 2004; Zahra et al., 1999).

Missed opportunities for organizational learning often signal serious knowledge-sharing problems. Networks that are grounded in relational trust may not share negative information about the failures of the projects that their members might have initiated. Network members might overrate certain types of knowledge while downgrading the value of other types. These members may not share it with others outside their group to retain control or lower expectations of spectacular achievements that could not be realistically sustained. Accurate information about the new business, therefore, might remain with only a few people who may not share it with the rest of the organization, possibly frustrating and obfuscating organizational learning.

Bound by mutual trust, members of existing informal networks might join forces and slow down the introduction and institutionalization of threatening radical business ventures. The solidarity that binds network members and the trust that ties them might unite them against threatening business ventures. These projects could change patterns of resource allocations, disrupt existing social structures, and cause shifts in the powers that network members have. These are real challenges to existing networks and their members. Strong social bonds often discourage network members from questioning each other's motives or from sounding the alarm even when ethical violations occur, or from raising questions about the value added to new ventures (Coleman, 1988). These effects increase especially when networks become embedded in the organization, limiting the flow of contradictory information that invites questioning and probing (Brass, Butterfield, & Skaggs, 1998).

Excessive relational trust can raise the costs of developing, introducing, and adopting new business ventures (Table 2) because there are major costs for creating and maintaining social networks. As linkages increase, the costs associated with network maintenance usually rise (Nahapiet & Ghoshal, 1998). New business creation might also challenge the social relations that exist in a unit, group, or network. Effort and time are needed to repair damaged relationships, build new bridges to existing power centers, or simply renew and sustain group solidarity (Adler & Kwon, 2002). This solidarity can evoke negative feelings and even the desire to protect the group by sabotaging the radically innovative ventures championed by competing groups (Uzzi, 1997), intensifying conflicts within and across groups. Finally, even when things go well, the need for communication, consultation, and involvement could increase the time and costs needed to implement new business ventures (Gabbay & Zuckerman, 1998).

When faulty formal controls exist, management may unwittingly or prematurely diffuse promising ventures within the organization, encouraged by early signs of their progress. Early on, new projects might move according to schedule, but then they may cross the "valley of death" where political, organizational, managerial, and informational problems arise, slowing down their progress and, often, bringing them to a halt. Early successes do not always translate into long-term viability: For instance, many promising new ventures that are developed to commercialize radically new products fail because they do not have the skills, competitors move quickly to preempt the firm, or the parent company does not provide the requisite resources or complementary assets.

Discussion

New business creation in established companies is a complex, time-consuming, and expensive organizational activity. It usually involves multiple, overlapping, and iterative stages (Garvin, 2004; Van de Ven et al., 2000). In each of these stages, there are opportunities for serious informational asymmetries, opportunism by different and competing actors, and conflicts over end "goals" and means of "how to best achieve them." Given the social, technical, and organizational complexity of these stages, relational trust can bring about better alignment among the goals of key players. As such, relational trust can facilitate and foster the recognition of opportunities, rapid evaluation of alternatives, and effective implementation. Still, our article also makes it clear that there is a heavy "price tag" for companies' overemphasis on relational trust. Cliques might form and limit the flow of ideas on different opportunities, constraining the search for radical change. We have also suggested that analyses could be perfunctory. Strategic variety might be scarified, handicapping a firm's search for radical change through new business creation.

Limitations

Our discussion highlights the functional and dysfunctional effects of relational trust on new venture creation in established companies. However, our presentation ignores several outcomes of new venture creation by assuming that these ventures will be born and developed within the organization. More and more companies are spinning off some of their new ventures either for financial (e.g., lack of resources) or strategic (e.g., fit) reasons. Trust might play different roles in those ventures that are spun off from those units that are retained and supported by the organization. Another shortcoming of our article is ignorance of the possibility that lessons learned at one level of the organization about new venture creation could be transferred to other levels, influencing the functional and dysfunctional effects of relational trust. Finally, while grounded in social relationships, relational trust indicates a belief in the system rather than in the individuals managing that system. For instance, employees might have questions about the trustworthiness of their superiors but still believe that, in the end, the system will work well when it comes to considering, evaluating, and selecting new venture ideas. Our analyses do not make a distinction between trust in people versus the systems that exist within the organization.

Implications for Managerial Practice

Our discussion emphasizes the vital importance of managerial attention to the various stages of new business creation. Some of these activities (e.g., opportunity recognition) might start at the bottom or middle of the organization (Pinchot, 1985) where it might be hard to gain the recognition and support of executives. Consequently, it is prudent to develop systems and processes that enable employees throughout the organization to come forward with their suggestions and proposals for new ventures. Managers should also solicit ideas and proposals from groups and individuals who are not easily identified with existing networks. Managers also need to create an environment where these proposals are considered and evaluated fairly.

Relational trust can also reduce the costs of experimentation associated with developing and transplanting new ventures in the organization. Naturally, maintaining relational trust at any cost could have a counterproductive effect on the firm and its operations. In particular, the opportunity cost for the firm could be huge, exemplified in missed opportunities to develop and grow new businesses that create new revenue streams and ensure growth. Few organizations can afford missing such opportunities, especially at times of industry change. Managers need to ensure that different people, with different and even competing ideas, are plugged into the system and identify promising venture opportunities.

Managers also need to "trust but verify." Social networks promote trust that occasionally could obscure objective and rational evaluation. Managers need to recognize the "downside" of trust and to conduct their analyses with some degree of dispassion and objectivity. These analyses serve to establish the credibility and viability of the proposed venture. They can also serve as a visible signal that all good ideas, regardless of their source, are worthy of attention and fair treatment. This, in turn, can encourage employees on the fringes of existing networks to present and share their ideas for new business development.

Some of the downside effects of overemphasis on relational trust arise from "embeddedness" in existing networks within the organization. Embeddedness means that a person (group) is tightly integrated into an existing social network. These networks differ in their complexity and social dynamics (e.g., how members make decisions or share information), complicating outsiders' ability to know how members' mind-sets develop. This challenges managers to follow the social dynamics of various networks, communicate with their members, solicit ideas from them, and work through the social processes associated with their preferences. Managers also need to build trustworthy relationships with individuals and groups (in and outside the company) that fall beyond the boundaries of these networks.

Implications for Theory and Future Research

In this article, we have presented a stylized discussion of the functional and dysfunctional effects of relational trust on new venture creation in established companies. Future researchers need to understand the context in which the new venture creation process takes place. For example, the factors that determine new venture creation initiatives in established family firms might differ from those that exist in other companies. Familial and kinship ties might foster trust (Zahra, 2003, 2005; Zahra, Hayton, & Salvato, 2004). As we argued throughout this article, relational trust promotes a willingness to take and share the risks associated with new business creation. Of course, in other situations, family dynamics could engender distrust and opportunistic behavior that can undermine value creation. This latter situation is similar to that found in larger and publicly held corporations where principal–agency problems are common.

The relationship between formal organizational controls and relational trust deserves further analysis. Some view relational trust and formal trust as substitutes (Zaheer & Venkatraman, 1995). Others view them as complements (Mellewigt et al., 2004) or supplements (Das & Teng, 1998). We do not know the specific conditions that produce these different effects (complements, supplements, or substitutes) and their respective functional and dysfunctional impacts on the various stages of new business creation. Of course, controls could be grounded in social norms (Ouchi, 1979) or formal organizational systems (Cialdini, 1996). Future researchers would benefit from exploring the differences in how social norms and formal organizational processes influence the relationship between control and trust in new venture creation initiatives. Social controls, for instance, might mitigate the negative effects of trust on the exploration of diverse ideas, expediting the adoption of radical ventures. Social norms of honesty and respect of others' property rights should encourage employees to suggest ideas for new business ventures, magnifying the positive effect of relational trust on these initiatives.

The effects of relational trust on new business creation might be moderated by institutional forces. For instance, when organizations are performing poorly, they might be more open to different sources of new venture ideas and implement these ideas more quickly. Sanders (2001) has also shown that when firms are performing poorly, managers are more apt to take risks. Given the mounting pressures to improve performance, managers might show greater consideration of different sources of ideas or even employ different criteria in evaluating opportunities. Clearly, future research would benefit from exploring the effects of situational variables (e.g., performance levels and environmental conditions) on business creation initiatives as well as the functional or dysfunctional effects of relational trust in this regard (Zahra, Rasheed, & Priem, 2005).

Entrepreneurship centers on the conception and creation of new business (Gartner, 1990; Zahra, 1991; Zahra, Sapienza, & Davidsson, 2006). To date, most researchers have studied new business creation by independent entrepreneurs. In contrast, researchers have given less attention to the processes associated with established companies' creation of new business, the sequence of these processes, and the skills and competencies needed to succeed in each. This is a serious gap in the entrepreneurship literature. Case studies, qualitative and large-scale quantitative studies, would be helpful in delineating the various stages in new business creation as well as the various actors involved in each, and key success factors.

Different social and professional networks usually exist in a company. These networks vary in their composition, structures, and social dynamics. As a result, they may have different effects on the various stages of new venture creation discussed throughout this article. Therefore, future researchers should examine the effects of different network factors on the entrepreneurial activities leading to or associated with new business creation initiatives. Researchers also need to investigate and document "dark sides" of these networks on these initiatives.

Conclusion

Throughout this article, we have argued for a more balanced view of the implications of relational trust for new business creation in established companies. We have noted that relational trust can overcome some of the problems associated with the social complexity, causal ambiguity, informational asymmetry problems, and political tensions that arise in the various stages of new business creation. As such, relational trust can be a powerful ingredient for fostering activities needed for successful new business creation. We have also identified several downside effects of relational trust in the context of new business creation in established companies. We hope our article stimulates future research on this complex but important issue.

REFERENCES

Adler, P. & Kwon, S. (2002). Social capital: Prospects for a new concept. *Academy of Management Review*, *27*, 17–40.

Ahuja, G. & Lampert, C. (2001). Entrepreneurship in the large corporation: A longitudinal study of how established firms create breakthrough inventions. *Strategic Management Journal*, *22*, 521–543.

Axelrod, R. (1984). *The evolution of cooperation*. New York: Basic Books.

Barney, J.B. & Hansen, M.H. (1994). Trustworthiness as a source of competitive advantage. *Strategic Management Journal*, *14*, 175–190.

Bazerman, M. (1998). *Judgment in managerial decision making*. New York: Wiley.

Brass, D.J., Butterfield, K.D., & Skaggs, B.C. (1998). Relationships and unethical behavior: A social network perspective. *Academy of Management Review*, *23*(1), 14–31.

Brass, D., Galaskiewicz, J., Greve, H., & Tsai, W. (2004). Taking stock of networks and organizations. *Academy of Management Journal*, *47*, 795–817.

Burgelman, R.A. (1983a). A process model of internal corporate venturing in the diversified major firm. *Administrative Sciences Quarterly*, *28*(2), 223–244.

Burgelman, R.A. (1983b). A model of the interaction of strategic behavior, corporate context, and the context of strategy. *Academy of Management Review*, *8*(1), 61–70.

Burgelman, R.A. & Valikangas, L. (2005). Managing internal corporate venturing cycles. *Sloan Management Review*, *46*, 26–34.

Busenitz, L. & Barney, J. (1997). Differences between entrepreneurs and managers in large organisations: Biases and heuristics in strategic decision-making. *Journal of Business Venturing*, *12*, 9–30.

Cialdini, R. (1996). The triple tumor structure of organizational behavior. In D.M. Messick & A.E. Trnbrunsel (Eds), *Codes of conduct* (pp. 44–58). New York: Russel Sage Foundation.

Clegg, C., Unsworth, K., Epitropaki, O., & Parker, G. (2002). Implicating trust in the innovation process. *Journal of Occupational and Organizational Psychology*, *75*, 409–422.

Coleman, J.S. (1988). Social capital in the creation of human capital. *American Journal of Sociology*, *94*, 95–120.

Das, T.K. & Teng, B.S. (1998). Between trust and control: Developing confidence in partner cooperation in alliances. *Academy of Management Journal*, *23*, 491–512.

Das, T.K. & Teng, B.S. (2001). Trust, control and risk in strategic alliances: An integrated framework. *Organization Studies*, *22*, 251–284.

Deutsch, M. (1973). *The resolution of conflict: Constructive and destructive processes*. New Haven: Yale University Press.

Earley, P.C. (1986). Trust, perceived importance of praise and criticism, and work performance: An examination of feedback in the United States and England. *Journal of Management*, *12*, 457–473.

Gabbay, S.M. & Zuckerman, E.W. (1998). Social capital and opportunity in corporate R&D: The contingent effect of contact density on mobility expectation. *Social Science Research*, *27*, 189–217.

Gartner, W.B. (1990). What are we talking about when we are talking about entrepreneurship? *Journal of Business Venturing*, *5*, 15–28.

Garvin, D.A. (2002). *Note on corporate venturing and new business creation*. Harvard Business School Note 302-091. Boston: Harvard Business School Publishing.

Garvin, D.A. (2004). What every CEO should know about creating new businesses. *Harvard Business Creation*, *82*(7/8), 18–21.

Gulati, R. (1995). Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances. *Academy of Management Journal*, *38*, 85–112.

Harvey, J.B. (1988). *The Abilene paradox and other meditations on management*. San Francisco: Jossey-Bass.

Höhmann, H.-H. & Welter, F. (Eds). (2005). *Trust and entrepreneurship—A West-East perspective*. Cheltenham, U.K.: Edward Elgar Publishing.

Jones, G.R. & George, J.M. (1998). The experience and evolution of trust: Implications for cooperation and teamwork. *Academy of Management Review*, *23*, 531–546.

Kanter, R.M. (1983). *The change masters*. New York: Simon & Schuster.

Kanter, R.M. (1985). Supporting innovation and venture development in established companies. *Journal of Business Venturing*, *1*(1), 47–61.

Korsgaard, M.A., Brodt, S.E., & Whitener, E.M. (2002). Trust in the face of conflict: The role of managerial trustworthy behavior and organizational context. *Journal of Applied Psychology*, *87*, 312–319.

Kramer, R.M. (1999). Trust and distrust in organizations: Emerging perspectives, enduring questions. *Annual Review of Psychology*, *50*, 569–598.

Lewicki, R.J., McAllister, D.J., & Bies, R.J. (1998). Trust and distrust: New relationships and realities. *Academy of Management Review*, *23*, 438–458.

Lind, F.A., Tyler, T.R., & Huo, Y.J. (1997). Procedural context and culture: Variation in the antecedents of procedural justice judgments. *Journal of Personality and Social Psychology*, *73*(4), 767–780.

Mayer, R.C., Davis, J.H., & Schoorman, F.D. (1995). An integrative model of organizational trust. *Academy of Management Review*, *20*, 709–734.

Mayer, R.C. & Gavin, M.B. (2005). Trust in management and performance: Who minds the shop while the employees watch the boss? *Academy of Management Journal*, *48*, 874–888.

McAllister, D.J. (1995). Affect- and cognition-based trust as foundations for interpersonal cooperation in organizations. *Academy of Management Journal*, *38*, 24–59.

McEvily, B., Perrone, V., & Zaheer, A. (2003). Trust as an organizing principle. *Organization Science*, *14*(1), 91–103.

Mellewigt, T., Madhok, A., & Webel, A. (2004). Trust and formal contracts in interorganizational relationships: Substitutes and complements. Available at SSRN: http://ssrn.com/abstract=611161, accessed 12 April 2006.

Nahapiet & Ghoshal (1998). Social capital, intellectual capital and the organizational advantage. *Academy of Management Review*, *23*, 242–266.

Nooteboom, B. (2002). *Trust: Forms, foundations, functions, failures and figures*. Cheltenham, U.K.: Edward Elgar Publishing.

O'Connor, G. & Rice, M. (2001). Opportunity recognition and breakthrough innovation in large established firms. *California Management Review*, *43*(2), 95–116.

Ouchi, W.G. (1979). A conceptual framework for the design of organizational control mechanisms. *Management Science*, *25*, 838–848.

Pinchot, G., III. (1985). *Intrapreneuring*. New York: Harper & Row.

Poppo, L. & Zenger, T. (2002). Do formal contracts and relational governance function as substitutes or complements? *Strategic Management Journal*, *23*, 707–725.

Roberts, K.H. & O'Reilly, C.A., III. (1974). Failures in upward communication in organizations: Three possible culprits. *Academy of Management Journal*, *17*, 205–215.

Rousseau, D.M., Sitkin, S.B., Burt, R.S., & Camerer, C. (1998). Not so different after all: A cross-discipline view of trust. *Academy of Management Review*, *23*, 393–404.

Sanders, R. (2001). Behavioral responses of CEOs to stock ownership and stock option pay. *Academy of Management Journal*, *44*, 477–492.

Schumpeter, J.A. (1934). *The theory of economic development*. Cambridge, MA: Harvard University Press.

Stull, M. & Aram, J. (2005). *Intrapreneurship and trust: An exploratory study in for-profit and non-profit settings*. Paper presented at the Academy of Management Conference, Honolulu, Hawaii.

Tsai, W. & Ghoshal, S. (1998). Social capital and value creation: The role of intra-firm networks. *Academy of Management Journal*, *41*(4), 464–476.

Tyler, T., Degoey, P., & Smith, H. (1996). Understanding why the justice of group procedures matters: A test of the psychological dynamics of the group-value model. *Journal of Personality and Social Psychology*, *70*(5), 913–930.

Uzzi, B.D. (1997). Social structure and competition in interfirm networks: The paradox of embeddedness. *Administrative Science Quarterly*, *42*, 37–67.

Van de Ven, A.H., Venkataraman, S., Polley, D., & Garud, R. (2000). Processes of new business creation in different organizational settings. In A. Van de Ven, H.L. Angle, & M.S. Poole (Eds), *Research on the management of innovation: The Minnesota studies* (pp. 221–297). New York: Oxford University Press.

Venkataraman, S. (1997). The distinctive domain of entrepreneurship research: An editor's perspective. In J.A. Katz (Ed.), *Advances in entrepreneurship firm emergence and growth*, *3* (pp. 119–138), Greenwich, CA: JAI Press.

Welter, F., Kautonen, T., Chepurenko, A., Malieva, E., & Venesaar, U. (2004). Trust environments and entrepreneurial behavior—Exploratory evidence from Estonia, Germany and Russia. *Journal of Enterprising Culture*, *12*, 327–349.

Wright, M., Hoskisson, R. Busenitz, L., & Dial, J. (2000). Privatization and entrepreneurship: The upside of management buy-outs. *Academy of Management Review*, *25*, 591–601.

Young, G., Sapienza, H., & Baumer, D. (2003). The influence of flexibility in buyer–seller relationships on the productivity of knowledge. *Journal of Business Research*, *56*(6), 443–452.

Zaheer, A. & Venkatraman, N. (1995). Relational governance as an interorganizational strategy: An empirical test of the role of trust in economic exchange. *Strategic Management Journal*, *16*, 373–392.

Zahra, S. (1991). Predictors and financial outcomes of corporate entrepreneurship: An exploratory study. *Journal of Business Venturing*, *6*(4), 259–285.

Zahra, S. (2003). International expansion of US manufacturing family business: The effect of ownership and involvement. *Journal of Business Venturing*, *18*, 495–511.

Zahra, S. (2005). Entrepreneurial risk taking in family firms. *Family Business Review*, *18*(1), 23–40.

Zahra, S., & Hayton, J. (in press). The effect of international venturing on firm performance: The moderating influence of absorptive capacity. *Journal of Business Venturing*.

Zahra, S., Hayton, J., & Salvato, C. (2004). Entrepreneurship in family vs. non-family firms: A resource-based analysis of the effect of organizational culture. *Entrepreneurship Theory and Practice*, *28*(4), 363–381.

Zahra, S., Neubaum, D.O., & Huse, M. (2000). Entrepreneurship in medium-size companies: Exploring the effects of ownership and governance systems. *Journal of Management*, *26*(5), 947–976.

Zahra, S., Nielsen, A., & Bogner, W. (1999). Corporate entrepreneurship, knowledge and competence development. *Entrepreneurship Theory and Practice*, *23*(3), 169–189.

Zahra, S., Rasheed, A., & Priem, R. (2005). Management fraud: Antecedents and consequences. *Journal of Management*, *31* (Annual Review Issue), 803–828.

Zahra, S., Sapienza, H., & Davidsson, P. (in press). Entrepreneurship and dynamic capabilities: A review, model and research agenda. *Journal of Management Studies*.

Zand, D.E. (1972). Trust and managerial problem solving. *Administrative Science Quarterly*, *17*, 229–239.

Shaker A. Zahra is Robert E. Buuck Chair in Entrepreneurship and professor at the Center for Entrepreneurial Studies and Strategic Management and Organization Department at Carlson School of Management at the University of Minnesota.

R. Isil Yavuz is a Ph.D. student at the Center for Entrepreneurial Studies and Strategic Management and Organization Department at Carlson School of Management at the University of Minnesota.

Deniz Ucbasaran is associate professor of entrepreneurship at Nottingham University Business School, University of Nottingham, Jubilee Campus, United Kingdom.

We acknowledge with gratitude the support and encouragement of Friederike Welter, guest editor.