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A Conceptual Model on Trust and Self-Discipline of the Entrepreneur: Preconditions for Capital Attraction and Business Success

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Abstract:
This conceptual paper explores the dynamics of trust and self-discipline as preconditions for the attraction of capital and success of businesses. Given the importance of trust to entrepreneurial success, it is imperative that this paper examines the factors that exactly triggers the formation, breaking and repair of trust in relation to the nature of different entrepreneurial activities. The finding from the systematic literature review shows that whereas trust may have negative implications for entrepreneurship, the positive influence is more probable and should be exploited by entrepreneurs for their success. Furthermore, the paper proposes that entrepreneurs could rely on trust and self-discipline not only as preconditions but equally as social capital, human capital and intangible assets to secure financial capital for their business ideas. In addition, the recommendation is that future research on trust and entrepreneurship could empirically test the extent to which financial institutions may be willing to advance capital to businesses on the premise of trust and self-discipline.

Keywords: *Trust, self-discipline, capital attraction, business success,entrepreneurship, entrepreneur*

1. Introduction

Entrepreneurship has been explored from different perspectives as involving the discovery, evaluation and exploitation of entrepreneurial opportunities. The word “entrepreneurs” is however mostly used for individuals who engage in new initiatives that are innovative, creative and yield commercial value. Earlier authors and researchers such as Desai (2001) and Robbins and Judge (2009) have a strong view that personality traits of the entrepreneur are the bedrocks of their success. Carland and Carland (1991) in their study suggested that entrepreneurs are not the same. This is because most successful entrepreneurs possess certain similar and differential characteristics. For instance, successful entrepreneurs demonstrate the ability to take risk. Timmons (1994) postulates that while entrepreneurs typically possess commitment and determination, leadership, opportunity obsession, risk tolerance, creativity and adaptability, they may well be characterized by need for achievement, preference for innovation, social orientation and propensity to take risk.

Entrepreneurial ventures as well as small businesses mostly succeed based on the integrity of their owners or managers. Therefore, for entrepreneurs to successfully operate a business and do it productively, they must understand what could assist them to maintain the success of their business to move past failures (Honigman, 2014). Obviously, financing of SMEs and access to finance play a crucial role in promoting growth and development of entrepreneurs and enterprises. However, lack of financial resources has been identified by some researchers such as Harvie (2005) as a major barrier for SMEs and entrepreneurs who usually have to mobilize their own capital or their own resources to establish or expand their businesses. Following this, entrepreneurs and small enterprises in developing countries turn to banks for financial assistance (Harvie, 2005). This notwithstanding, evidence in the literature reveals that existing and prospective entrepreneurs in developing economies have challenges in starting, growing and maintaining a viable business since lack of alternative financing has been identified as the main reason why entrepreneurs and small enterprises turn to banks for financial assistance, with difficulties as a consequence of the high risk of failing loans, low profitability and lack of collateral required by banks (Harvie, 2005).

Management literature further suggest that differences in cultural variables (religion, education) between the developed and emerging markets means business deals may not be closed based on the traditional rules in the latter. This is because, in most developed countries, the appropriate economic environments are conducive, legal, regulatory and suitable for development of sustainable (subsidy-free) financial intermediaries. Hitherto, this study suggests that research findings on factors influencing successful access to capital in developed countries may not necessarily be the same as in emerging markets.

Therefore, it will be interesting to understand how trust and self-discipline impact on access to capital and business success for entrepreneurs in an emerging economy like Ghana. This is to assess whether these two personal traits could be used as intangible assets to partially substitute for the collaterals that the banks require before granting financial assistance to entrepreneurs. Although there is a common assertion in literature that by increasing access to financial services for entrepreneurs and small businesses, the financial sector can play important roles in alleviating poverty in developing countries because entrepreneurs have the ability to create, innovate and employ, this is difficult to be realized almost surely. Also, given the major functions that entrepreneurship is perceived to play in the growth of an economy, decision-makers all over the world are on the move every day, doing their best to surmount the bottlenecks of financing businesses for both existing and prospective entrepreneurs.

The objective of this conceptual paper is to develop a conceptual model and make propositions to give direction for future research to empirically test whether trust and self-discipline could be used as intangible assets to partially substitute for the collaterals that banks require in offering financial assistance to entrepreneurs. This study is important because entrepreneur's personal characteristics (traits, values, attitudes) are often cited as the most influential factors related to the performance of an SME and its competitiveness (Man et al., 2002; Simpson et al., 2004; Gürol & Atsan, 2006). Also, the concepts of trust and self-discipline of the entrepreneur cannot be neglected in the access to capital and business success.

It is obvious from literature that much research has not been done on these behavioural traits of entrepreneurs and how they might impact on access to capital and the success of a business venture, even though some amount of work has been done as far as exploring the entrepreneurial characteristics for business successes are concerned.

2. Literature Review

2.1. Trust of the Entrepreneur

In recent years, entrepreneurship scholars have shown a growing interest in the role of trust (Höhmann & Welter, 2005; Welter & Smallbone, 2006). In spite of their growing interest in this subject, these scholars have failed to come into agreement on the definition of trust. This is because according to Seppänen et al. (2007), at least seventy (70) various definitions have been detected. However, one of the widely used definitions of trust is given by Mayer et al. (1995) who defined trust as the willingness of a party to be vulnerable to the actions of another party, based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party.

According to Rousseau et al. (1998), trust has been conceptualized and studied widely across many disciplines as the psychological state which comprises the intention to accept the vulnerability of another, based on positive expectations or behaviour. Both Mayer et al. (1995) and Rousseau et al. (1998) emphasize on the willingness or intention to be vulnerable to another's behaviours. Trusting, therefore, exposes one to be vulnerable. According to their definitions, Mayer et al. (1995) and Rousseau et al. (1998) suggest that trust has the components of familiarity and risk with "positive expectation." It is believed that trust is the outcome of history built incrementally and accumulatively over a period of time. It involves time and experience of dealing with one another. People who choose to trust usually go through a decision-making process which involves factors that can be identified, analysed and influenced.

Hurley (2006) classified broadly into two, what will make an individual to decide to trust or not to trust. These include decision-maker factors and situational factors. For the decision-maker factors, Hurley (2006) believes that, naturally, people are risk-takers and others are risk-avoiders. For instance, trusting someone depends largely on how risk-tolerant or risk-avoiding the trustor is. Therefore, trusting someone depends on factors which concern the trustor who is the decision-maker but often have little to do with the trustee or the person to be trusted. These decision-maker factors are the result of a complex mix of personality, culture and experience. The more risk-tolerant trustors are, the easier it is for them to trust. On the flip side, the more risk-avoiding trustors are, the more time they take to trust. A risk-avoider, perhaps, will behave like a laggard and will take time to assess the trustee very well before deciding whether to trust. Perhaps, that is why Williamson (1993) challenges the tendency to idealize trust-based relationships when he states that within business relationships, it is not a case of personal trust but rather "calculated risk." As such, an entrepreneur calculates the costs and rewards of business partnership.

Psychologists have shown that individuals vary widely in how well-adjusted they are. Therefore, the level of adjustment of the trustor in risk tolerance affects the amount of time needed to build trust. In entrepreneurship, well-adjusted people are comfortable with themselves and see the world as a generally benevolent place. Their high levels of confidence often make them quick to trust because they believe that nothing bad will happen to them. However, people who are poorly adjusted, by contrast, tend to see many threats in the world and so they carry more anxiety into every situation. These people take longer to get to a position of comfort and trust. Relative power is another crucial factor in the decision to trust. Some basic assumptions indicate that if a trustor is in a position of authority, that person is more likely to trust quickly because they can sanction any person who violates their trust. But if the trustors have little authority, and thus no recourse, they are more vulnerable and so will be less comfortable trusting. This is referred to as deterrent-based trust.

Conceptually, trust formation depends on other factors classified as situational (Mayer et al., 1995). These factors concern aspects of a situation and the relationship between parties. These are the factors that a trustee can most effectively address to gain the confidence of a trustor. Trust could also be easily formed based on similarities. In this, the trustors identify themselves with trustees, rationalizing that the trustees could be counted on to act as they would in each situation. This is the reason why people tend to easily trust those who appear like themselves. Similarities may include common values (such as a strong work ethic), membership in a defined group (such as the manufacturing department, or a local church, or even a gender) and shared personality traits (extroversion, for instance, or ambition). In deciding how much to trust someone, people often begin by tallying up their similarities and differences. That is partly why companies with a strong unifying culture enjoy higher levels of trust, particularly if their cultural values include integrity and fair process, than companies without one. This type of trust could be referred to as either knowledge-based and/or identification-based trust. Therefore, one key point in formation of trust is existence of similarities and shared values because it is always more difficult to trust people who seem different. For instance, in organisations, managers routinely assess capabilities that are in line with their capabilities when deciding to delegate authority to colleagues and subordinates. Capability is so relevant at the group and organizational levels to assist establish trust.

Also, there is a common assumption in literature that shows that trust in (entrepreneurial) relationships is volatile and fragile and it is easily destroyed and repaired (Kim et al., 2009; Kramer & Lewicki, 2010). Trust violations may occur at the individual level when a business partner (trustee) exploits a (partly) trust-based relationship and neglects to fulfil expectations. Trust is violated mostly when the trustor's (the person trusting) conviction and positively expected outcome of the trustee (the one being trusted) are not met. Once trust is broken, it could be difficult to establish it again (Rempel et al., 1985). Breaking of trust has two parts: violation of a spoken or unspoken agreement and its resulting injury which constitute betrayal of trust.

After trust has been violated, there are two key considerations for the victim: (a) dealing with the stress the violation imposed on the relationship and (b) determining if future violations will occur. Normally, the perception is that broken trust cannot be repaired. However, there are arguments that, rather, broken trust is difficult to repair but not beyond repairs. Some researchers assert that rebuilding trust is not as easy as building trust. When trust is violated in entrepreneurship and the victim believes that the violator will not make efforts at righting the wrongs and minimizing future violations, then there is no incentive for the victim to make any decision for reconciliation and restoration of trust.

Just as building the trust takes the trustor and trustee, repairing a broken trust involves both the trustor and trustee as well. However, it is believed the trustor who is vulnerable will be more negatively affected than the trustee, in case of any breach. Therefore, whether the trust can be repaired or not will mostly depend on the trustor who becomes the subject of focus. Also, repairing a broken trust depends on other factors classified as situational. These factors concern aspects of a situation and of the relationship between the parties. These are the factors that a trustee can most effectively address to gain the confidence of the trustor again, for instance, security.

2.2. Self-Discipline of the Entrepreneur

Earlier studies of entrepreneurial process examined entrepreneurial personality to find individual traits of successful entrepreneurs or owner-managers (McCline et al., 2000; Ibrahim & Soufani, 2002; Mueller & Thomas, 2000; Rwigema & Venter, 2004; Baron, 1998). These studies reveal that while there is no one all-encompassing personality profile of entrepreneurs, it is widely thought that there are certain characteristics that are necessary to meet the tasks and challenges of new venture creation and without which the entrepreneurial process limps and eventually atrophies (Cornwall & Naughton, 2003; Morris & Zahra, 2000). However, Markman and Baron (2003) argued that the closer the match between the individual’s personal characteristics and the characteristic requirements of being an entrepreneur, the more successful the individual will be. Owing to this, this study agrees to the assertion that by increasing access to financial services for entrepreneurs and small businesses, the financial sector can play important roles in alleviating poverty in developing countries. This is because entrepreneurs have the ability to create, innovate and offer employment which can take the economy to higher levels. Therefore, it is essential that entrepreneurial ventures must be given the needed financial assistance in order to continue to expand.

In other studies, it has been identified that economic theory has been incorporated in the idea that people care about self-image (Rabin, 2000; Brekke et al., 2003; Köszegi, 2006; Bénabou & Tirole, 2011; Bénabou & Tirole, 2006; Cervellati et al., 2006) and there is experimental evidence that self-concept maintenance limits dishonesty (Fischbacher & Föllmi-Heusi, 2013). Economics also support the notion that behaviour is influenced by subconscious impulses (Benabou & Pycia, 2002; Bodner & Prelec, 2003; Bernheim & Rangel, 2004). This implies that people’s perception about themselves could have an enormous impact on their behaviour and how others perceive them. This is further explained to mean, the more self-discipline one is, the more likely it could be for one to succeed. Self-discipline in this regard is not only critical to performance but it is also an essential component to create and maintain healthy relationships. Possessing self-discipline could make the entrepreneur powerful, engaging and inspiring. It makes the entrepreneur proactive rather than reactive and defensive.

Perhaps, everyone knows that self-discipline is very important but what is not adequately known could be the degree of its importance, especially, to the entrepreneur. Self-discipline could be more important to all, including the entrepreneur, than can be imagined. It could change one’s whole life for the better while lack of it could have negative effects. Self-discipline could enable a person to take risks just as entrepreneurs are known to do, challenge oneself and move on to new achievements. It could provide the belief that if things go wrong, they can be put right and that the entrepreneur has enough resources (capabilities, abilities, motivation) to deal with the unexpected and unknown aspects of situations.

Ahmad and Seet (2009) conducted an inductive inquiry into the behavioural aspects of business leaders and identified that wrong behaviours might have a negative impact on business success. Consequently, indiscipline and the display of character traits that breed mistrust could have negative ramifications for the entrepreneurial exploits of business owners.

It is obvious from the brief literature review that some amounts of work have been done as far as exploring the entrepreneurial characteristics for business successes are concerned. However, much work was not done on trust and self-discipline of the entrepreneur in relation to business success as well as capital attraction. Also, these earlier studies were done in different cultural contexts and financial service industries. This researcher believes that trust and self-discipline of the entrepreneur could serve as intangible assets and/or collaterals and are vital characteristics for the attraction of capital and business success, hence the need for this study.

2.3. Trust and Self-discipline, Capital Attraction and Business Success

It is resolved that trust and self-discipline are multilevel constructs that exists at personal, organizational, institutional and international levels (Das & Teng, 2001). Acceptably, it has been studied that the performance of entrepreneurs and access to finance is increased when self-discipline is complemented by trustworthiness. It has been identified that financial assistance from family and friends as well as trade credit are two cheapest sources of finance for entrepreneur, apart from one's own savings. However, it will take the demonstration of trustworthiness to facilitate entrepreneur's access to finance from even these sources as well as others such as financial institutions and promotes business success (Bradley & Rubach, 2002). Therefore, it is obvious that trust and self-discipline are very important in business partnership.

Given the pace of change in organizations today such as mergers, downsizing, new business models, globalization, technological advancements et cetera, it is not surprising that trust is an issue. While trust is perceived as a measure of the quality of a relationship, a disciplined entrepreneur is likely to make clear decisions and implement them at the right time and monitor them till results are achieved. In the literature, it is evident that cooperation cannot occur if there is no personal trust at the beginning and most business fail with undisciplined owners. Honigman, (2014), therefore, suggests that for entrepreneurs to successfully operate a business and do it productively, they must understand what could assist them in order to maintain the success of their businesses and move them past failures. It is crucial, therefore, for managers, entrepreneurs, subordinates and others to develop a better understanding of trust and of how to manage it.

Ultimately, trust is needed because it leads to all the needed capital (human, social, cultural and financial) required for start-ups or growths(Ingram et al., 2014). Although trust has been extensively studied as one of the personality traits needed in business ventures (Atuahene-Gima & Li, 2002), it is also seen to becrucial in the understanding of organizational outcomes such as leader effectiveness, effort and performance (Dirks & Ferrin, 2002; Aryee et al., 2002). This conceptual study has identified that trust and self-disciplineinfluence entrepreneurship. For instance, there is a common assumption based on the concept of this study that trust could lead to commitment to duty and impact on access to finance and business success by reducing the costs (Dyer & Chu, 2003; Zaheer et al., 1998) and risks (Das & Teng, 2001) that are involved in inter-organizational exchanges (Gulati & Nickerson, 2008; Sako, 1997). All these could paint a positive picture of the organization to investors and could further lead to the attraction of the needed or more capital and the success of the business.

Most investors consider trust as the fulcrum of trade credit. They depend on it for the extension of lines of credit and their prompt repayments. With existence of trust, trade credit helps businesses, especially small ones, to succeed (Bradley & Rubach, 2002). Undoubtedly, an investor-investee relationship dwells on trust. The investor can only put his resources into a business if, and only if, trust is established.

Some studies have reflected on trust and self-discipline as crucial in entrepreneurial success and confirmed that during the initial stages of enterprise development, strong ties can encourage entrepreneurial persistence (Davidsson & Honig, 2003). Such ties contribute to 'economies of time', adding to the capability of quickly capitalizing on market opportunities (Uzzi, 1997). For example, Greve, (1995) suggests that trust-based personal relationships enable entrepreneurs to gain greater feedback on their business idea. Thus, trust may be viewed as the lubricant without which network activity would not be possible, thereby representing one of the key properties of social capital (Anderson & Jack, 2002).

3. Conceptual Model and Propositions

The conceptual model for this study suggests that trust and self-discipline are the independent variables. The dependent variables are capital attraction and business success. Both trust and self-discipline have the potential to lead to capital attraction and business success. This means, it could be difficult for entrepreneurs to attract capital and succeed in their business endeavour if they are not self-disciplined and trustworthy. This makes the attributes of trust and self-discipline conditional for the two dependent variables of capital and business success to be achieved. However, there are similarities between both concepts which may explain the increasing focus in the recent entrepreneurship literature.

The philosophical concept underpinning this study suggests a social exchange (Konovsky & Pugh, 1994; Whitener et al., 1998) where trust and self-discipline are not only critical to performance at the workplace and in the workforce but also an essential component to create and maintain healthy financial relationships. The conceptual model therefore explains that possessing traits of trust and self-discipline could have an influence on capital attraction and business success. In this study, trust and self-discipline comes in the form of habit, practice, philosophy and a way of living to set one apart.

In the model, trust and self-discipline are linked to Self-Efficacy Theory (SET) which originated from social cognitive theory. This theory is seen as the most important pre-condition for behaviour change. The basic idea behind the self-efficacy theory is that performance and motivation are in part determined by how effective people believe they can be (Bandura, 1982; as cited in Redmond, 2010).People who regard themselves as highly efficacious act, think and feel differently from those who perceive themselves as inefficacious. Highly efficacious people produce their own future rather than simply foretell it. From the model, the following combinations of assumptions are possible:

P1: Trust can lead to capital attraction
P2:Trust can lead to business success
P3: Trust can lead to both capital attraction and business success
P4: Self-discipline canlead tocapital attraction
P5: Self-discipline can lead to business success
P6: Self-discipline can lead to both capital attraction and business success
P7: Both trust and self-discipline can lead to capital attraction
P8: Both trust and self-discipline can lead to business success
P9: Both trust and self-discipline can lead to both capital attraction and business success

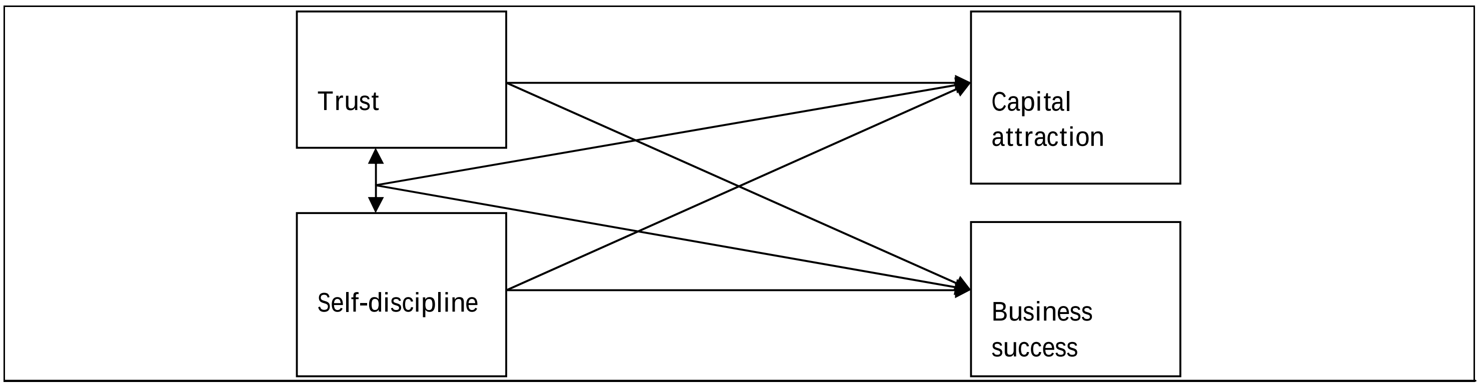

Figure 1: Conceptual Model on the influence of trust and self-discipline on capital attraction and business success

4. Direction for Future Study

Based on the conceptual model developed in this study, an empirical study is recommended to be conducted to establish the relational link of trust and self-discipline to capital attraction and business success. The future research on trust and self-discipline could empirically test the extent to which financial institutions may be willing to advance capital to businesses on the premise of trust and self-discipline. The key reason is that trust and self-discipline are prerequisites for entrepreneurs to attract capital and succeed in their business endeavours. Investors also need entrepreneurs who they can trust and who are disciplined to develop network that brings connections to other investors and industry leaders.

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