



SCHOOL OF ECONOMICS AND MANAGEMENT

Challenges during crises, an opportunity to build trust?

A qualitative study on entrepreneurs during the COVID-19 crisis.

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Abstract

Problem - Trust has the potential to reduce risk and uncertainty that is inherent within entrepreneurial activities. However, few entrepreneurship studies have examined the role of trust during the venture creation process. Additionally, researchers have called for more studies exploring trusting entrepreneurial behaviour and processes across different contexts.

Aim - This study aimed to add to the current body of research by examining trust development in crisis situations. Specifically, we focused on identifying the challenges entrepreneurs face resulting from the COVID-19 crisis and how this impacts trust development in relational embedded ties.

Methods – Nine in depth, semi-structured interviews were conducted with entrepreneurs who were affected by the COVID-19 crisis.

Results – The empirical data demonstrated that the most common changes were; a shift in market demand, cancellations and delays, payment difficulties and increased uncertainty. During these challenges, the personal goodwill trust in relational embedded ties was either enhanced or violated, depending on the actions of the tie. Social trust was only relied upon if there was no form of personal trust that facilitated the relationship.

Implications - Crisis situations, such as the COVID-19 creates challenges that could be an opportunity for entrepreneurs to build upon the strongest type of trust; personal goodwill trust.

Keywords: entrepreneurship, critical setbacks, relationally embedded ties, trust, crisis, COVID-19.

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1. Introduction

The coronavirus, COVID-19, first appeared in Wuhan, China in early December 2019. Since then, the virus has spread globally. On March 21st 2020, the World Health Organization (WHO) announced the outbreak to be considered a pandemic. Over 300.000 deaths due to the virus were reported globally by the middle of May 2020. In combat, policymakers across the world have restricted social contact, ordered factories to be closed, airlines to cancel the majority of their flights and have banned numerous activities within the service sector (Baldwin & Weder di Mauro, 2020). These safety measures including countrywide and economic lockdowns to tackle COVID-19 have thus given rise to a situation that is unmatched in the entrepreneurship literature (Kuckertz, Brandle, Gaudig, Hinderer, Reyes, Prochotta, Steinbrink & Berger, 2020).

Previous crises have mostly occurred at a certain time and location such as hurricane Katrina in 2005, or have built up over a period of time like the financial crisis in 2008. The COVID-19 pandemic however, has spread globally in rapid fashion and the reactions of governments have hit economies and businesses abruptly (Kuckertz et al. 2020). From an economic perspective, this has created a concurrent shock for supply as well as demand (Fernandes, 2020). However, it is argued that economic actors are affected in different ways by pandemics such as the COVID-19. Whilst the majority of industries suffer, some of them face disproportionately negative effects while other sectors can even benefit (Bloom, Cadarette & Sevilla, 2018).

In such situations, entrepreneurial firms are especially endangered as they are among the most exposed members of the economy (Walsh & Cunningham, 2016). Small start-up firms already have to deal with existence-threatening challenges in the form of liabilities of newness and smallness in calmer times (Stinchcombe, 1968 cited in Shane & Venkataraman, 2000). This high level of uncertainty can even increase in times of crisis, making it even more difficult for

entrepreneurs to conduct business (Kuckertz et al. 2020). To deal with these ambiguities associated with the process of creating a new venture, their owners must adopt different strategies (Smolka et al. 2018). Within the literature, uncertainties and challenges throughout the entrepreneurial process are often defined as critical events (Argyris & Schön, 1978; Lindh & Thorgren, 2016), critical incidents (Cope & Watts, 2000; Cope, 2003) or critical setbacks (Politis & Gabrielsson, 2009). During times of crisis, such as the outbreak of COVID-19, many critical events have emerged and are likely to continue emerging for entrepreneurs and their firms. Therefore, the potential for innovation as well as for the creation of economic, societal and ecological value is seriously threatened (Kuckertz et al. 2020).

Scholars have investigated entrepreneurial challenges in the form of critical events during ordinary economic circumstances (Kaulio, 2003; Politis & Gabrielsson, 2009; Cope & Watts, 2000). Specifically, Cope and Watts (2000) argued that a critical event is a complex phenomenon that is often hard to define due to their perceptual boundaries. They concluded that critical events that are often linked to each other can be compiled under the term ‘critical episodes’. The incidents can be seen as “eruptions” within these episodes (Cope and Watts, 2000). Previous research on crises showed that the inability to prepare for a crisis can result in drastic consequences, especially for small firms due to their vulnerability in the early stages. Accordingly, challenges include; interruption of cash flows, failure to access capital to recover, problems of obtaining governmental support and infrastructural problems (Runyan, 2006). Being able to deal with critical events and crises effectively is therefore fundamental to the overall success of entrepreneurial work.

When it comes to dealing with challenges, entrepreneurial resilience is considered as an essential attribute for entrepreneurs. Within the literature, entrepreneurial resilience has been defined as the skill to proactively react to catastrophic events (Masten, 2009) such as the COVID-19 crisis. The ability of individuals to recover from setbacks related to their private life and career can also be seen as an example of entrepreneurial resilience (Zautra, Hall, & Murray, 2010). Studies have found that this resilience can be enhanced through ‘protective factors’ such as the social ties of the entrepreneur (Davidson, 2000). To strengthen the

relationship with ties, trust is considered to be an essential factor (Hedner, Abouzeedan & Klofsten, 2011).

The importance of ties for entrepreneurs has been pointed out by different scholars (Birley, 1985, Jones; Edwards & Beckinsale, 2000). Burt (1992) suggested entrepreneurial success may be partly dependent on the relative position of the entrepreneur's social environment. Further studies within the entrepreneurial context found that social networks play an important role during the decision making process (Taylor & Thorpe, 2004). The leverage of ties has been found to be an essential factor when reacting to high levels of uncertainty during a crisis situation (Kuckertz et al. 2020). Indeed, from the literature it may be concluded that ties aid entrepreneurs greatly in their work.

Trust is considered to be a primary factor when building one's network of ties (Hedner, Abouzeedan & Klofsten, 2011). Trust can occur between persons, groups, organisations and institutions (Welter, 2012). Trust is a critical element of network exchange as it strengthens the relationship and enhances resource flows (Larson, 1992; Lorenzoni & Lipparini, 1999). In a turbulent environment, trust can be seen as a means to lower the costs and risk of economic transactions (Manolova et al., 2007; Puffer et al., 2010; Yan & Manolova, 1998). Returning back to the concept of ties, ties that influence the venture's economical actions and enable exchange on the basis of the relationship can be defined as relationally embedded. For example, a family member is more likely to influence the decision making process of the entrepreneur than a stranger. Research suggests that these ties are facilitated by one or more forms of trust; personal goodwill trust, personal competency trust, and social trust. Fully embedded ties are ties that are protected by a full range of both personal and social trust. These ought to have a more effective balance of all three types of trust (Hite, 2005).

Through a review of the literature, it appears that dealing with critical setbacks can be crucial for the development of the entrepreneur (Cope & Watts, 2000; Cope, 2003; Politis & Gabrielsson, 2009). To be able to overcome these challenges, it is argued that entrepreneurs should strengthen their networks of ties (Davidson, 2000; Kuckertz et al. 2020) whereby trust is an essential factor (Hedner, Abouzeedan & Klofsten, 2011). However, the important role of social capital during these situations has often been neglected (Hayter, 2013; Hedner,

Abouzeedan & Klofsten, 2011). Additionally, researchers have called for more studies on trusting entrepreneurial behaviour and processes across different contexts (Anderson et al., 2010). Moreover, few entrepreneurship studies have examined the role of trust in creating and developing a new venture (Liao & Welsch, 2005; Zahra et al., 2006). Together, these topics form an important area of research.

These gaps within the literature have thus lead to the current research question:

How does the trust of entrepreneurs in their relationally embedded ties develop when dealing with challenges due to the COVID-19 outbreak?

This study aims to add to the previous work on trust development and entrepreneurial challenges during crisis situations. Our work seeks to support the findings of existing studies that point out the importance of ties when facing critical challenges and setbacks (Cope & Watts, 2000; Cope 2003; Politis & Gabrielsson 2009). Furthermore, we aim to provide a deeper understanding of the different functions of relationally embedded ties for entrepreneurs (Hite, 2005). By applying the concepts of relationally embedded ties to the personal relations that the entrepreneur maintains, we seek to identify how trust develops among these when facing a global crisis.

2. Theoretical framework

In the following chapter, relevant literature in the field of entrepreneurial challenges and setbacks, as well as relationally embedded ties and trust development, will be assessed. Firstly, previous studies on entrepreneurial challenges and setbacks as well as crisis situations will be presented. Subsequently, literature on social networks and relationally embedded ties will be reviewed, whereby trust development is the main focus. An indepth exploration of trust, including the different frameworks of facilitation and relational embeddedness will also be outlined. Lastly, the most important findings will be summarized to lead to the research gap and research question of this study.

2.1 Entrepreneurial challenges and setbacks

Global restrictions and economic consequences create challenges for many entrepreneurs and new ventures. Entrepreneurs usually have to deal with a high degree of ambivalence due to not yet sufficiently defined concepts of products. They have to develop strategies for upcoming challenges and make assumptions about the viability and technical feasibility of opportunities (Ravasi & Turati, 2005). These strategies and the underlying goals have to be constantly aligned to match the fast-paced, and to a large degree uncertain, entrepreneurial environment (McGrath & MacMillan, 2000). Challenges along the life cycle of a start-up, are often referred to as ‘critical events’ (Argyris & Schön, 1978; Lindh & Thorgren, 2016), ‘critical incidents’ (Cope & Watts, 2000; Cope, 2003), or ‘critical setbacks’ (Politis & Gabrielsson, 2009). Critical events or incidents can be defined as events that occur unexpectedly and disrupt the usual flow of activity (Argyris & Schön, 1978; Lindh & Thorgren, 2016). They are also referred to as events which deviate from the expectations of the actors (Olsen 1992, cited by Kaulio, 2003). Undeniably, the challenges faced by

entrepreneurs as a result of COVID-19 are profound. These concepts commonly utilised to approach entrepreneurial issues will be built on and later explored in the context of COVID-19.

Various studies have examined the occurrence as well as the effects of critical incidents in an entrepreneurial context. Accordingly, Kaulio (2003) investigated critical setbacks that start-ups have to deal with during the transitory stage of the life cycle. Kaulio (2003) found that the majority of challenges were related to either the market, customer financing or human resources. These were perceived crucial from a strategic as well as from a marketing perspective. In another study, Politis and Gabrielsson (2009) suggest experiences with critical setbacks influence attitudes towards the failure of entrepreneurs. Cope and Watts (2000) conducted a study on six new ventures and their owners, examining critical setbacks from an individual perspective. Participants of the study recalled different occurrences such as a serious marketing mistake that led into a financial crisis of the venture and ultimately also had effects on the family of the entrepreneur. Based on the findings, Cope and Watts (2000) argued that challenges can often be seen as an initiator for reflection and also a shift in values as well as beliefs of individuals. Similarly, Lindh and Thorgren (2016) found that it is crucial for entrepreneurs to view challenges as critical in order to learn from it. From the current research, it can be concluded that entrepreneurial challenges and setbacks critical setbacks can be crucial for the development of the entrepreneur. Drawing on previous findings, we, however, will use these concepts to explore the specific challenges that come up during the COVID-19 outbreak and how trust in the entrepreneur's relationally embedded ties develops when handling these.

2.2 Challenges and setbacks in crisis situations

Research on challenges in times of a crisis, has pointed out additional aspects. It has been found that preparation is an essential factor when dealing with the setbacks that a crisis brings. The impact of unexpected events has been examined within a study on hurricane Katrina, showing that the inability to prepare for a crisis can lead to drastic consequences, especially for small firms, due to their vulnerability in the early stages. Accordingly,

challenges include; interruption of cash flows, failure to access capital to recover, problems of obtaining governmental support and infrastructural problems (Runyan, 2006). However, the radical and unexpected fashion in which the COVID-19 outbreak occurred, gave economic actors including entrepreneurial firms little to no chance to prepare (Kuckertz et al. 2020).

A recent study by Kuckertz et al. (2020) examined the challenges that German start-ups faced due to the COVID-19 outbreak and how they reacted to these challenges. They found a number of setbacks that increase the risk of bankruptcy and endanger the long term survival of entrepreneurial firms. These setbacks included; a decrease in market demand, interruptions in the value generation process and supply chain, staff related difficulties, hurdles when receiving governmental support as well as a general adverse climate towards innovative products and services. They also identified different reactions and coping strategies entrepreneurs used in this situation. Such strategies included utilising resources at hand to come up with creative solutions, activating network resources, shifting business activities, as well as gathering advice through social networks. Taken together, a crisis can increase the amount of challenges that entrepreneurs face drastically and which makes it even more essential to react in the right way to be able to overcome them.

2.3 Ties to help overcome challenges and setbacks

As previously mentioned, entrepreneurial resilience is argued to be an essential attribute in overcoming critical setbacks and challenges (Hedner, Abouzeedan & Klofsten, 2011). The term resilience originates from the field of social sciences where it has been characterized as the skill to proactively react to catastrophic events (Masten, 2009). Resilience has also been defined as the ability of individuals to recover from setbacks faced within their work and home environment (Zautra, Hall, & Murray, 2010). In addition to helping overcome critical setbacks and challenges, entrepreneurial resilience has also proven to be a crucial quality in regards to crisis management (Doern, Williams & Vorley, 2019). Ducheck (2018) argues resilience could be an important factor for entrepreneurial success. Together, the findings suggest that resilience aids entrepreneurs greatly in facing and overcoming challenges. The

practical implications of such findings are profound in that increased efforts should be made to foster resilience within entrepreneurs.

It is argued that an entrepreneur's level of resilience is largely dependent on their personal characteristics and primary networks (Zautra, Hall, & Murray, 2010). Thus it is suggested that entrepreneurial resilience can be further developed by strengthening one's personal network (Davidson, 2000). Including coaches, mentors, and other ties into one's personal network is one way in which resilience can be fostered (Davidson, 2000). Hedner, Abouzeedan and Klofsten (2011) support this argument by suggesting the existence of protective factors such as close personal ties can increase resilience. When it comes to building these relationships, trust is considered to be a primary factor (Hedner, Abouzeedan & Klofsten, 2011). Further work by Grube and Storr (2018), who studied the post-disaster response of entrepreneurs in the United States, highlights the importance of ties in tackling extreme levels of uncertainty. Taken together, it can be concluded that an entrepreneur's personal ties and the level of trust within these ties are crucial factors in strengthening resilience and overcoming challenges.

2.4 Trust and ties

In a turbulent environment, trust can be seen as a means to lower the costs and uncertainty of economic transactions (Manolova et al., 2007; Puffer et al., 2010; Yan & Manolova, 1998). Trust has been described by Anderson and Jack (2002) as the "glue and lubricant" that hold the network ties together. Previous research has suggested trust between parties can be a critical element of network exchange. When trust is developed, it strengthens the relationship and enhances resource flows (Larson, 1992; Lorenzoni & Lipparini, 1999). Moreover, parties are more willing to engage in cooperative activities, leading possibly to further development of trust (Fukuyama, 1995 cited by Smith & Lohrke, 2007).

Throughout the early stages of venture creation, a significant amount of resources and opportunities are found within the relationally embedded ties of the entrepreneur's social networks, such as close friends and family (Hite & Hesterly, 2001). In addition to one's already existing network, entrepreneurs often seek to form relationally embedded ties with

outside entities through which they can accumulate critical resources (Dubini & Aldrich, 1991). Relationally embedded ties are generally governed through relational contracting and trust rather than through contracts or market governance. Generally speaking, informal mechanisms are used instead of formal mechanisms (Granovetter, 1985; Uzzi, 1996; Williamson, 1979; Zaheer & Venkataraman, 1995). Although ties are typically governed by trust and relational contracting, it is important to note that ties exist on a continuum from relational exchange to market-based exchange. Influential research by Hite (2005) takes the approach of examining the relational embeddedness of ties, connecting it to the different types of trust they are facilitated by. In this thesis, we will make use of this concept, as it suggests a certain classification of trust and through what social phenomenon different types of trust can develop.

Ties that are relationally embedded provide critical strategic opportunities and resources to emerging ventures that would not have been accessible or affordable to the venture under a more traditional market exchange (Batjargal, 2003; Hite & Hesterly, 2001; Larson, 1992). Using these ties to extract resources and recognize opportunities can have a positive effect on the venture performance (Kodithuwakku & Rosa, 2002). Furthermore, relationally embedded ties can strengthen entrepreneurial persistence during the early stages of venture development. For example, ties based on personal trust enable entrepreneurs to receive more valuable feedback on their business idea (Greve, 1995). It is important to note however, that engaging in an economic interaction with relationally embedded ties that rely on frequent contact can result in a loss of some bargaining power.

The literature suggests that there are different ways of categorizing ties. Birley (1985) takes the approach to divide the ties of entrepreneurs as formal and informal, highlighting that informal contacts may not be qualified to provide unbiased judgments. Moreover, Granovetter (1973) argues that networks consist of relationships that can be categorized as either weak or strong-tie based. Weak ties can lead the entrepreneur to resources, opportunities, information, responsibilities and problems, capital, customer referrals, discussion and advice, borrowable tangible resources and supplier referrals (Bloodgood, Sapienza & Carsrud, 1995 cited in Katz, & Brockhaus 1995). Alternatively, through strong ties, the entrepreneur can acquire knowledge, support, and complementary resources which can lead to co-operation between

key actors (Johanson & Mattsson, 1987). Granovetter (1973) argues that the strength of ties lies in the ability to provide resources that are reliable, accurate and low-cost. This can include information, finance and contacts.

The entrepreneurial process can be viewed as an economic process within a social context (Zimmer, 1986). Within this context, exchange relationship quality and structure must be developed by the entrepreneur to enable access to the necessary resources (Hite, 2005). It has been suggested that the attributes and the relative position of the social networks of entrepreneurs might be responsible for their success (Burt, 1992). Earlier studies in the field of entrepreneurship have also emphasised the importance of networking and personal networks (Birley, 1985; Jones, Edwards & Beckinsale, 2000). Taylor and Thorpe (2004) have demonstrated that the decision-making process of entrepreneurs has a significant social dimension where relationships are used as a means to influence this process. This is in line with research by O'Reilly, Anderson and Anderson, (1987 cited in Taylor & Thorpe, 2004) who claim that in order to better understand the decision-making process of the entrepreneur, wider contextual issues, such as the social environment, should be taken into account. Moreover, new ventures are dependent upon their relational embedded ties to provide opportunities and resources (Jarillo, 1989) as they are typically resource-poor themselves due to liabilities of newness (Baum, 1996). Thus, the ability of the entrepreneur to create exchange relationships with resource providers can be crucial (Katz & Gartner, 1988). Aldrich and Fiol (1998) argue that because entrepreneurs face liability of newness and there is information asymmetry between them and other parties, trust is the most important facilitator of the economic relationship. Indeed, the results indicate that founders who are more successful in signalling legitimacy were more likely to build a network of ties which are supported by trust (Aldrich & Fiol, 1994). According to Welter and Smallbone (2006), these networks can assist the entrepreneur in creating legitimacy.

Based on the current literature, it can be concluded that growing a venture's network ties can enable the firm's development, performance and growth (Hite, 2005). However, many scholars have, in their research, only taken work-related networks into consideration. This can limit our understanding of how entrepreneurs arrive at their decision (Wilkins, 1997). To gap this limitation within the literature, the current study thus seeks to explore the role of non

work-related ties. To add to this, although a significant number of studies have focused on the importance of social networks for venture creation and development, most of this research only assesses the role of trust indirectly. Further research on the direct contribution of trust is thus warranted.

2.5 Entrepreneurship and Trust

Trust emerges in different ways, for example through deliberate actions and calculations, a ‘leap of faith’ or as a result of collective and individual sense-making. It can occur between persons, groups, organisations and institutions (Welter, 2012). Since the definition of trust varies among researchers, it is important to clarify how the term is defined. This paper has adopted the definition of trust proposed by Mayer, Davis and Schoorman (1995, p. 712):

“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 Smith and Lohrke (2007), particularly in the context of entrepreneurship, this definition is relevant in that it recognizes the risks for the entrepreneur as well as for the resource providers. When looking at the definitions of trust and entrepreneurship, several possible links can be identified. According to Luhmann (2000), trust can be a substitute for the risks and uncertainties that are inherent in the entrepreneurial process. This implies that not all business relationships have to be regulated by contracts which can lead to lower transaction costs.

Trust has the potential to reduce risk and uncertainty that is inherent within entrepreneurial activities. For that reason, it is critical for entrepreneurship (Welter, 2012). Both entrepreneurial activities and trusting deal with risk and uncertainty. When acting entrepreneurially, we do not know beforehand if we will accomplish the intended results. When trusting, we do not know if the other party will live up to our expectations. Trust

violations can occur when a trustee exploits a trust-based relationship and neglects to fulfil expectations (Welter, 2012).

2.6 Types and development of trust

Trust-building has received very little attention in empirical research. Possibly due to the fact that to research this phenomenon properly, a longitudinal approach would be required. In addition, Zahra et al. (2006) argue for a more balanced view on trust and its role for entrepreneurship, taking into account both the positive and the negative effects. Hite (2005) argues that different social processes can lead to the development of different types of trust. These mechanisms suggest social components and the development of trust are recursive by nature, suggesting a dynamic phenomenon (Bradach & Eccles, 1991 cited in Thompsen, 1991). Hite (2005) suggests trust was an outcome of a social component within the relationship. As demonstrated in Figure 1, three social components—social components of personal relationship, economic interaction and social capital —resulted in three types of trust: personal goodwill trust, personal competency trust, and social trust. Butler and Hansen (1991) argue that entrepreneurs during the early stages of venture development mostly rely on strong, personal ties when identifying business opportunities. In later stages, they rely more on economic-based ties. This implies that ties facilitated by personal trust might become less important as the venture develops over time.

Personal goodwill trust - Network ties can develop trust of each other's goodwill based on the personal relationship. The network parties trust that the other is looking out for each other's best interests. The encouraged mutual value seeking behavior keeps the motivation to maintain this relationship high (Hite, 2005).

Personal competency trust - These network ties have, through a history of economic interaction, developed a personal, direct knowledge of and trust of each other's expertise. The repeated interactions and processes that build the personal competency trust have, over time, become known, expected and understood by the parties. As this trust builds over time, the

confidence the partners had in each other's competences increased, making them less willing to switch to another partner (Hite, 2005).

Social trust - Through information from a third party, the social trust of network ties can be increased (Portes & Sensenbrenner, 1993). Governance of the network tie relies on the basis that both parties have a connection with a third who can vouch for the partnership (Hite, 2005).

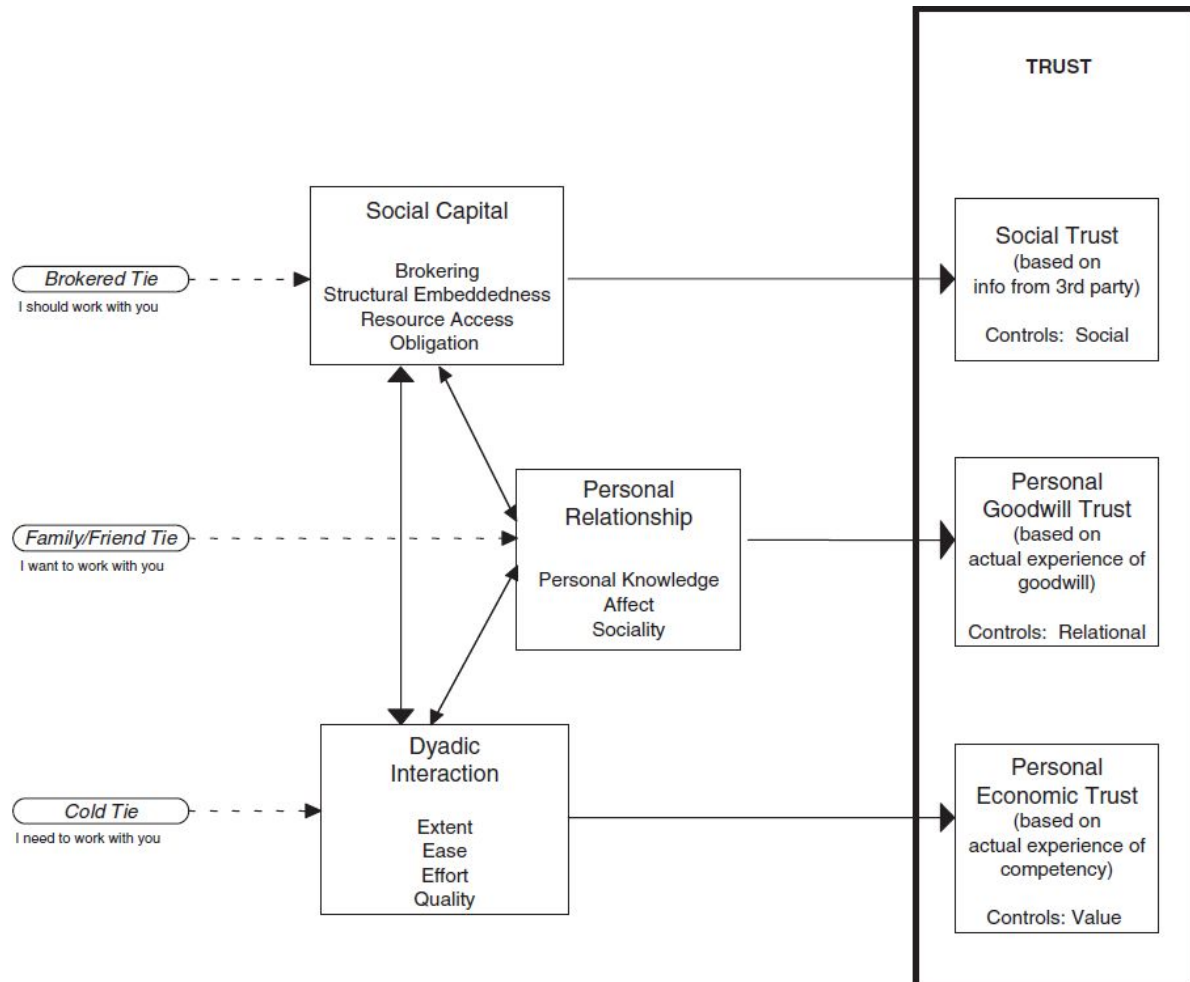


Figure 1: Evolutionary Processes of Relational Embedded Ties (Hite, 2005).

We will use this classification of trust to analyse how these types of trust develop during different challenges. It is worth mentioning that these types of trust are not necessarily independent or mutually exclusive, all are likely to be present at some level (Lewis & Weigert, 1985). Fully embedded ties are ties that are protected by a full range of both personal

and social trust. These ought to have a more effective balance of all three types of trust. Less relationally embedded ties are not facilitated by all types of trust (Hite, 2005). For example, an entrepreneur did not receive the desired result of an accountant recommended by his close friend. This tie was only relationally embedded based on social capital, resulting in social trust but not in any type of personal trust.

2.7 Chapter summary

In the previous section, the research streams of critical challenges for entrepreneurs in times of crisis, as well as relations with a focus on trust and its development, have been reviewed. Thereby, scholars have made various suggestions for further research.

The importance of coping with critical setbacks and challenges for entrepreneurial development has been widely acknowledged (Cope & Watts, 2000; Cope, 2003; Politis & Gabrielsson, 2009). To be able to overcome these challenges, it is argued that entrepreneurs should strengthen their social networks (Davidson, 2000). Thereby, trust is pointed out to be an essential factor (Hedner, Abouzeedan & Klofsten, 2011). It has also been suggested that leveraging social networks is especially crucial when dealing with challenges during times of crisis (Grube & Storr, 2018; Kuckertz et al. 2020). However, the important role of social capital when dealing with critical challenges has often been neglected (Hayter, 2013; Hedner, Abouzeedan & Klofsten, 2011). Scholars have argued that factors such as the entrepreneur network ties are not yet sufficiently considered as contributing elements for entrepreneurial success (McClelland, 1961; Timmons, 1985, cited by Ulhøi, 2004). Furthermore, few entrepreneurship studies have researched the role of trust in creating and developing a new venture (Liao & Welsch, 2005; Zahra et al., 2006). Researchers have called for more studies on trusting entrepreneurial behaviour and processes across different contexts (Anderson et al., 2010). Thus, this study aims to follow the suggestions for further research pointed out above by answering the following research question:

How does the trust of entrepreneurs in their relationally embedded ties develop when dealing with challenges due to the COVID-19 outbreak?

We build on the concepts of critical setbacks and relational embedded ties and we will use the classification of trust of Hite (2005) as a framework to analyse trust.

3. Methodology

The following chapter provides a detailed overview of the methodology applied in this study. It starts by outlining the overall research approach, which is followed by a description of the research design. Subsequently, the method of data collection, as well as a description of the sample, will be presented. After that, the method of data analysis applied in this study will be outlined. In the final section of this chapter, limitations regarding the methodology will be reviewed and discussed.

3.1 Research Approach

The aim of this paper is to examine how the trust of entrepreneurs in their relationally embedded ties develops when dealing with challenges resultant of the COVID-19 outbreak. Our analysis of trust development is based on the concept of relationally embedded ties by Hite (2005). Putting this into the context of a global crisis and entrepreneurial challenges makes it a complex phenomena to study. Moreover, quantitative data on trust is difficult to collect, especially when taking into account how trust evolves and develops (Welter, 2006). For these reasons, a qualitative research approach is most appropriate for this study. This approach aims to improve the understanding of complex social phenomena, rather than prioritising the generalisation of results (Marshall, 1996).

To answer our research question, it is necessary to utilise an inductive approach. When taking an inductive approach, the researcher is required to collect and analyse the data, before subsequently extracting a theory (Bryman & Bell, 2011). The COVID-19 outbreak and subsequent rampage cannot be compared to any other crisis before (Fernandes, 2020). Therefore, we are generating new findings of what challenges this crisis brings and how it influences trust development. In order to generate a solid foundation for our analysis, it was

crucial to build a general understanding of concepts relating to entrepreneurial challenges and crisis situations, as well as relationally embedded ties and trust development. This creation of a knowledge foundation by reviewing the literature is described as an aspect of a deductive research approach (Bryman & Bell, 2011). Therefore, we are taking an inductive approach while still using some elements of a deductive research approach.

3.2 Research Design

The current study aims to generate new theories instead of testing existing theories. We seek to improve the understanding of this complex phenomenon rather than generalising the outcomes. Thus, an explorative approach is more appropriate. This approach led us to choose a qualitative cross-sectional research design. This type of research design entails the collection of a body of data in connection with numerous variables collected from multiple cases (Bryman & Bell, 2011). All data is collected more or less simultaneously, ruling out any influence time might have.

We are interested in creating a deeper understanding of what types of trust is developed when entrepreneurs are dealing with setbacks during a crisis. At the time of writing this thesis, the COVID-19 outbreak is evolving into a worldwide crisis, impacting every entrepreneur. Accordingly, many entrepreneurs have experienced huge challenges and setbacks, threatening their revenue streams and long term survival. This led us to focus on critical setbacks and challenges caused by the COVID-19 outbreak.

To differentiate between different types of trust, we seek to build on the theoretical framework of Evolutionary Processes of Embedded Network Ties by Hite (2005). Hite (2005) argues that fully relational embedded ties can be facilitated by three types of trust: social trust, personal goodwill trust and personal competency trust.

3.3 Data collection

This study aimed to comprehend rather than measure how trust of entrepreneurs in their relational embedded ties develops when dealing with critical setbacks due to the COVID-19 outbreak. By using an in-depth interview structure, we were able to capture the entrepreneurs' attitudes, behaviour and opinions regarding our research subject. The interviews were semi-structured, providing us with structure while offering flexibility at the same time. This approach allowed participants to open up and go into detail, whilst simultaneously allowing us to build up a candid dialogue and engage with them (Bryman & Bell, 2011).

The interviews were organized in three subsections. The purpose of the first section was to give the participants an overall introduction to our field of research. The introduction was followed by questions that allowed the participants to introduce themselves and their companies. Before moving on to the next section, we asked interviewees to recall their most significant success moment. The purpose of this question was to make the interviewee feel more comfortable before we began to ask about COVID-19 related challenges. The second section was aimed at identifying the different challenges that occurred due to the Coronavirus outbreak and how entrepreneurs dealt with it by using their relationally embedded ties. The purpose of this was to build on a critical incident technique. This technique is described as a method that helps to obtain specific details regarding behavior in certain situations (Flanagan, 1954). After noting down the different ties that the participants highlighted, the aim of the final section was to separately focus on each of those ties. Therefore, we asked questions that helped to gain insights on the different types of trust that were in place and how they developed. These questions were based on the theory of Evolutionary Processes of Embedded Network Ties by Hite (2005).

Krouwel, Jolly and Sheila (2019) suggest that in-person interviews are marginally superior to video interviews due to the fact that interviewees say more and therefore, disclose more information. However, we respected the social distancing guidelines by the Swedish

government and Lund University to prevent the spread of COVID-19. For that reason, all interviews have been conducted through the video calling service Zoom.

3.4 The sample

There are three general approaches to selecting a sample for a qualitative study. Convenience sampling, theoretical sampling and judgement sampling, which is also known as purposive sampling. Often, the approach a researcher chooses overlaps with multiple options (Marshall, 1996). In order to find the most productive sample, a judgement sampling approach was taken with an element of convenience sampling. The criteria for selecting the interviewees were as followed:

- The candidate considers themselves as one of the founders of the venture and has ownership in the firm.
- The venture of the entrepreneur has been negatively affected by the COVID-19 outbreak and its countermeasures according to the entrepreneur.

The participants for this study were found through the personal network of the researchers or through different social networks. This included sending out messages on LinkedIn to entrepreneurs who were suspected to be negatively affected by the COVID-19. Throughout the course of this study, around 30 entrepreneurs were contacted and of whom nine were willing to be interviewed. Within this study, no incentives were offered to participants. It is worth mentioning that none of the firms of the entrepreneurs exceeded 20 full time employees.

According to the suggestions of Gioia, Corley and Hamilton, (2013), each participant was offered anonymity while contributing to our study. In order to insure that, all names of the participants have been changed to pseudo names. In order to ensure that no information can be directly related to the interviewees, only a limited amount of information about their businesses has been disclosed within this paper. In the following section, each participant will

be briefly introduced and the most essential background information on their business will be presented.

3.4.1 Participants

John is a management consultant who started his business in Sweden in 2019. Coming from an aviation/military background, he worked himself up to several leadership roles before founding his own consultancy.

Albert is a PhD graduate and, at the same time, runs a business in the food sector. The firm serves clients over different continents and employs six employees.

Carl is an experienced CEO and board member of several companies in the field of biotechnology and pharmaceuticals. One of his companies was founded in 2015 where he currently employs three people.

Tomas is the founder of a physical activity studio in a densely populated area in Sweden. With his business, he offers courses, rents out the studio to third parties and sells equipment through a physical shop. Additionally, he runs seminars and events all across the world.

Paul is the owner of a media marketing agency with focus on sports. After founding the business in 2015, he currently employs 20 people and has multiple offices in Austria and Switzerland.

Amy is one of five founders and CEO of an impact driven consulting and event management firm located in a densely populated area in Sweden. Their focus lays on organising conferences and consulting businesses on issues that are related to sustainability.

Ben is the CEO of a food company located in a densely populated area in Sweden. He started the company in 2017 together with two co-founders. Since then, they have expanded their sales market to multiple European countries.

Clara is the founder and CEO of an event management company located in Sweden. She currently employs five people.

McLovin is the founder of a company in the sector of personal development. Starting in 2016, he offers coaching sessions and organises speaking events and workshops, that are mostly held in Sweden.

3.5 Data analysis

Throughout the nine interviews that were conducted, 57 tie connections were mentioned by the entrepreneurs. We focused more closely on 28 out of these 57 ties which allowed us to determine whether ties were relationally embedded or not. By drawing on the theoretical framework of relational embeddedness by Hite (2005), we classified 21 out of the 28 network connections as relationally embedded ties. These ties were therefore included in the analysis of this paper.

Gathering information via semi-structured interviews led to a large amount of broadly-structured data. In line with the arguments by Bryman and Bell (2011), this situation commonly occurs when conducting qualitative research. In order to analyse the extensive amount of data collected, we drew on the thematic analysis suggested by Braun and Clarke (2006). This method can be used to identify and analyse gathered data and as a result, discover themes or patterns within it. It allows the researcher to organise and describe data in detail.

Braun and Clarke's (2006) six step process for identifying themes was followed throughout our analysis. The first step involved becoming familiarised with the collected data, which included the verbal transcription of every interview. In the second step, initial codes were generated. These initial codes generated were then categorised into overarching themes during the third step. When coding and building these themes, the researcher can follow a more data-driven or a more theory-driven approach (Braun & Clarke, 2006). Due to the mostly inductive nature of our study, we chose to follow a more data-driven strategy by building the majority of our themes based on patterns recognised in the empirical data. In the fourth step these themes were reviewed and improved to ensure they were internally consistent and

externally distinct This step was achieved by refining, merging and creating sub-themes. Consequently the names of the themes were adjusted in the fifth step. In the sixth and final step, the generated themes were incorporated into the results section of this paper and appropriately described.

3.6 Limitations

Despite the fact that the chosen methodology can lead to answering the outlined research question, it comes with certain limitations which should be taken into account. These are presented in the following section.

Qualitative research can be criticised for being too subjective due to the fact that the findings rely heavily on the researcher's view on what is important and relevant. It can be difficult to establish what the researchers did exactly and how they arrived at the results and conclusions. This lack of transparency makes the study extremely difficult to reproduce (Bryman & Bell, 2011). We addressed these concerns by including a detailed description of the research design, the research methods and the sample.

As the nature of our study is exploratory and qualitative, we argue our findings should not be used as a point of departure for generalisations. Due to the limited number of cases that have been examined, it might be impossible to generalise our conclusions (Bryman & Bell, 2011). One must also be aware that trust is also a subjective phenomenon. It is a social construct that cannot be easily measured across different cultures and countries (Welter, 2006). The sample of this paper consists of entrepreneurs from different parts of Europe. This could have influenced our findings.

4. Results and Discussion

In the following section, the results will be presented and reviewed in relation to existing literature. First, the empirical findings will be outlined, using quotes from the conducted interviews to support them. In the second part of this chapter, the empirical results will be discussed in the context of previous studies in the field of entrepreneurial challenges as well as trust development and relational embeddedness.

4.1 Results

The empirical data of this study identified different challenges that entrepreneurs faced as a result of the COVID-19 outbreak and its countermeasures. These challenges have been categorised by the authors as; a shift in market demand, payment difficulties, cancellations and delays of contracts and increased uncertainty. We describe how every type of challenge has impacted trust development between the entrepreneurs and their ties, without incorporating existing literature. Representative quotes from interviewees have been added to support the interpretation of the findings.

The empirical data showed the severity of the COVID-19 crisis and its impact on entrepreneurs. The majority of participants (Albert, Tomas, Paul, Amy, Ben, Clara and McLovin) reported a sudden decline in revenue. The most extreme cases were the ones of Paul and Ben, where revenue streams decreased by 70 to 80 percent. In the case of Clara, the revenue even dropped by over 90 percent.

“In March we had 80% less turnover than in the months before. And this month we have about 70% less than before” - Ben

“We were seeing a very good year ahead with quite some business booked for this spring. And within a number of days, the whole spring was canceled until June. It went from being very good to zero. Absolutely zero.” - Clara

This significant decrease of revenue occurred alongside a number of additional challenges. In the following section these challenges and their impact on trust are described.

Shift in market demand

A challenge some entrepreneurs (John and Albert) were dealing with was a change in the demand of products or services they could offer and provide. This could be traced back to a shift in priorities of the target market and the rules and regulations that force the entrepreneurs to offer services in another way.

“So I could be very far down the list of priorities. I mean, even now, actually, people have said to me, I'd love to pay you for coaching, but it's just not number one or number two of my priorities because I could lose my job next week.” - John

“So we are now not focusing on these items not because we do not want to, but because the demand has dropped really, really low. So we are now focusing more on items with a longer shelf life.” - Albert

As a result of this challenge, Albert had to shift focus on products with a longer shelf life with his business. To be able to offer these products, they had to start working together with a new supplier.

Recently we have had a shift in type of product (...) So we got in touch with a new supplier.” - Albert

Albert has not conducted business with this partner before and there was little to no type of personal trust in place. There was however, a considerable amount of social trust that facilitated this tie.

“For example, particularly in this specific case of this supplier, we know that they sell theirs in some of the countries where we know certain people. So get in touch with these people and we ask about

them. Do they deliver on time? Do they have persistency in terms of quality and so on and so forth?” - Albert

The data suggests that initiating this new economic relationship was done out of necessity and due to the current situation. Under normal circumstances, the trust would not be sufficient to facilitate economic transactions.

“See usually, when you have such a case of COVID-19, you always try to work and reinforce your relationships with suppliers that you already know. Because this time is not the right time to build new relations (...) You could do that, but I mean, the trust is missing there.” - Albert

Empirical data suggests that a shift in market demands can also lead to a change in business activities. Tomas, who runs a service-based business, had to move from providing courses in real life to offering them via video calling. To set this up, he collaborated intensively with a business consultant.

“For our courses, we found a solution, we will offer them online with distance. We use zoom and also recording them and sending them to the people not attending. So people can also attend afterwards.” - Tomas

Findings of this study show that even though he had been working with this consultant for over 20 years, there was still more personal competency trust being built by this increased collaboration.

“My admiration for her qualities in the creative part grew. They were high before they but they grew.” - Tomas

The empirical data indicates that personal goodwill trust and personal competency trust can be developed in relationally embedded ties in this situation, even when these ties have been existing for many years.

Payment difficulties

Another challenge that was shown in the results were difficulties with payments. Our data shows that customers of our participants (Albert, Tomas, Paul, and Ben) faced liquidity

problems and requested deferral or remission of payment. The data implies that entrepreneurs are specifically aware of their reliance on trust in this situation. Albert and Ben highlighted the importance of personal trust when deciding over such a request.

“We trust them a lot, because selling to South Africa is risky on its own. So sending out a container on board on the sea without any payment up front is by itself a trust element of the relationship” - Albert

“Our customers are all basically tested. So they only get new products if they paid their bills. If they haven't paid for a long time they don't get new products.” - Ben

In the case of Paul, customers proactively approached the entrepreneurs about their inability to pay at the moment, which led to renegotiation of terms of their current contract.

“And there are several companies that are bound with us for the long term, contractually, but got into serious financial problems, through Corona. (...) they approached us openly and asked if we could find any solution. To shut down and extend the contract for 2-3 months and then somehow make up for it afterwards.” - Paul

On the other hand, Clara approached her landlord and asked for a deferral of rent. She explained how the current crisis has impacted her business and how difficult it is at the moment to generate revenue. The data suggests that granting such a request can build personal goodwill trust.

“So we asked them our situation and said that we have no income. And they immediately answered that they would offer to help us. (...) I think they look out for our best interest, they should if they want to keep us as renters, unless they want to start looking for somebody else. I think that as long as they can, they will help us.” - Clara

Cancellations and delays of contracts

The outbreak of COVID-19 and its countermeasures also led to several contracts not being fulfilled. Scheduled services were being cancelled or postponed. These kinds of challenges were especially reported by Tomas, Paul, Amy, Clara, and McLovin.

“I had to cancel many gigs because of Corona.” - McLovin

“Productions can't be realized now, because you just don't have any events to produce videos about.”
- Paul

Our data does indicate that customers cancelling their orders or services due to the current crisis does not necessarily lead to a violation of personal goodwill trust. Albert, Carl, Tomas, Paul, Amy, Clara, and McLovin expressed that when a party cannot deliver what is expected due to the COVID-19 crisis, a loss of trust of any type does not have to be resultant, provided that the entrepreneur believes the party is not to blame. For example, failing to deliver a financial service that was promised before the crisis.

“So you could say, simply speaking, he's the problem. Because he couldn't fix the things. But obviously, we know it's not as easy as saying he is the problem.” - Carl

However, the findings suggest that when the other party fails to deliver and the entrepreneur believes it is because they are unwilling to do so or when they could have prevented it from happening, personal goodwill trust is lost.

“Before the crisis, I would have trusted them more to be long term customers. And now there's a big question mark for me on if I want to rent to them in the future(...) Because this is one crisis but we will have different crises. (...)So my trust for them to show goodwill or to pay their debts... I'm not so sure.” - Tomas

“He was demonstrably not affected by the coronavirus at all. So he was just a typical company that wants to exploit the corona virus without having any real problems. That is a pity. Of course the trust in our relationship is at the lowest level now, and so is our whole cooperation. We insist on the contract but the basis is simply gone.” - Paul

Participants explained that an important precondition for not losing personal goodwill trust is open and transparent communication about the cancellation or delay. In these cases, entrepreneurs reported personal goodwill trust was not lost.

“I think this is really important now that if you want to be a good partner, you need to explain honestly, what is the problem? How does this trouble your business?” - Ben

When a party cancels a contract and the entrepreneur does not feel like the communication has been deficient, personal goodwill trust is lost.

“Well, they just cancelled after we had won the contract through an open process. Two weeks later, they just emailed us and just said; Well, we have cancelled. So thank you for being part of the process. Bye.” - Amy

Other cases (Paul and Ben) showed that personal goodwill trust can be built by proper communication and the willingness to find a creative solution.

“They could have said: there is no video, so there is no money. But instead, they came proactively and said; look, we budgeted it for you, we'll find a creative solution, and you can still get the money and at the same time try out some new services with us.” - Paul

Increased uncertainty and information asymmetries

Throughout the different challenges which could be discovered in the empirical data, a high degree of uncertainty seemed to be a major factor that influenced the behaviour of the entrepreneurs. All participants reported that an increased level of uncertainty is a challenge they are currently dealing with. Many highlighted uncertainty regarding rules and regulations (Albert, Tomas, Paul, Amy, Ben, Clara and McLovin) and uncertainty about the operations of parties they conduct business with (Albert, Tomas, Amy, Ben, Clara and McLovin).

“But still, the whole situation is really unknown. And you cannot plan as before, you need to take things very much on the short term.” - Albert

“What is crucial for our survival is that the world opens, that hotels open, people start to be allowed to travel again, that's crucial.” - Clara

As a reaction to this increased uncertainty, the entrepreneurs often increased the frequency of interaction with their ties. Thereby, they often exchanged advice and also shared how they are impacted by the crisis. Furthermore, they were discussing different coping strategies with their ties.

“Before the crisis we only send a few messages to each other, but lately some more” - Tomas

“But also you have a lot of more discussion with your suppliers when it comes to what the situation is, how is the situation of raw materials. (...) This discussion has been intensifying recently much more than before.” - Albert

“We now talk with them frequently (...) I mean, you frequently asked them. How are you doing? How is the situation you are in? How did you cope with it in your company?” - Ben

The empirical data showed that these increased interactions between entrepreneurs and their relationally embedded ties can lead to the development of personal goodwill trust.

“I would say, like with some others, that it became a bit deeper, more trust, because she showed us interest that it goes well for us and she shared some information on what she's doing. So we shared back and then I think it deepened. We show support for each other's businesses.” - Tomas

“Now we are more connected with different parties and actors within the supply chain. Because without doing so, you will not be able to manage the operation and the outbreak of the coronavirus.” - Albert

“If you share these things, I think you're getting automatically closer to them.” - Ben

Ben explained that there is still uncertainty with the ties he did not get in contact with throughout the COVID-19 crisis.

“There are some people we haven't talked about so we might encounter problems with those, but we don't know that yet.” - Ben

4.2 Discussion

In the following section, the empirical findings will be discussed and analysed. We will review the identified challenges in relation to existing literature. More specifically, we will focus on how entrepreneurs dealt with challenges related to the COVID-19 outbreak. However, the focus of this analysis will be the trust development of entrepreneurs in their relationally embedded ties.

The aim of this study was to assess the development of trust of entrepreneurs in their relationally embedded ties when dealing with COVID-19 related challenges. The empirical data regarding different challenges is partly consistent with existing studies on entrepreneurial challenges in crises. In a recent study on German entrepreneurs during the COVID-19 crisis, Kuckertz et al. (2020) identified four main challenges; a major drop in sales, interruptions in the value generation process and supply chain, an adverse climate towards innovative products or services, as well as hurdles when obtaining governmental support. While the first three challenges were mostly in line with the challenges identified in our current empirical data, we did not find strong support for difficulties in obtaining governmental support. However, this disparity in findings may be explained by a noticeable limitation present within the current study. Accordingly, the current study is limited due to the fact that the entrepreneurs of the sample were located in different European countries, with the majority being located in Sweden. Different nations are likely to have varied regulations and requirements for governmental support. Future research could investigate to what extent this challenge occurs among entrepreneurs located in different countries. Based on these findings, government policies could be improved.

Furthermore, it is worth mentioning that the entrepreneurs in our sample brought up several critical challenges that were partly overlapping and complex. This is in line with the findings of Cope and Watts (2000) who suggest that challenges and setbacks often occur as eruptions within critical episodes, rather than as isolated events. Moreover, they argued that these events can be difficult to define due to their complexity and perceptual boundaries.

When dealing with the challenges of COVID-19, entrepreneurs within our sample highlighted the importance of their ties. This concurs with previous studies that suggested the leverage of social capital to be an essential factor when reacting to challenges in times of crisis (Grube & Storr, 2018). Furthermore, Kuckertz et al. (2020) suggest that the activation of personal networks as well as the use of creative solutions to be a common response. The latter was also reflected in our empirical findings as several entrepreneurs were coming up with creative solutions to deal with the upcoming challenges. These activities can lead to the development of personal goodwill trust. In this context, honesty, transparency and the willingness to find common ground were reported to be crucial factors. In some cases, the financial condition of the entrepreneur's ventures seemed to influence their willingness to be flexible and find creative solutions. However, as this was not the focus of this exploratory research, future research could investigate to what extent the financial condition of a firm influences their willingness and capabilities to be flexible and find creative solutions. Furthermore, our findings highlight the importance of trust for developing and maintaining economic relationships between entrepreneurs and their ties. This is in line with the suggestions of Hedner, Abouzeedan and Klofsten (2011) who consider trust a primary factor when it comes to building relationships.

Smith and Lohrke (2007) argue that because entrepreneurs face liabilities of newness and there is information asymmetry between them and other parties, trust is the most important facilitator of the economic relationship. Our data suggests that increased uncertainty and information asymmetry is one of the main challenges entrepreneurs faced during this global crisis. We have found that in order to cope with increased uncertainty, entrepreneurs interacted with their ties more frequently than before the crisis occurred. We found that this increased interaction can lead to building a stronger personal relationship with this tie. As this social component strengthens, the relationship with a tie can begin to increase its potential to influence the economic decision-making process of the entrepreneur (Granovetter, 1985; Hite, 2003; Uzzi, 1996). Hite (2005) argues that personal goodwill trust is an outcome of this social component. This is also reflected in our results, where entrepreneurs reported having built stronger relationships and trust through increased interaction.

Some of our participants had contracts in place that were binding customers to take services. However, in several cases, these contracts were renegotiated or deferred at the request of a customer. In these situations, the value of the contract was often downsized temporarily or the services were delayed to a time where they expected the crisis to be less severe. These requests solely depended on the willingness of the entrepreneur to trust in their customers and make changes to set contracts. This phenomenon is in line with studies that argue that relationally embedded ties are generally governed through relational contracting and trust rather than through contracts or market governance (Granovetter, 1985; Uzzi, 1996; Williamson, 1979; Zaheer & Venkataraman, 1995).

Our empirical data discovered one situation, where this type of request was not granted. Accordingly, a customer tried to defer a contract by claiming to be more negatively impacted by the crisis than it was the case. The entrepreneur however, trusted in the customer to be honest and expected him to have both parties best interest in mind. This concurs with suggestions that trust in a business context may only depend on the perception of one party that the other one will behave in an expected way (Gambetta, 1988). The personal goodwill trust in this specific tie took a significant loss, when the entrepreneur found out about their dishonesty. Trust to govern this tie became insufficient. As a consequence, the entrepreneur fell back on contract governing. It is a question of future research to investigate and compare what types of behavior can lead to trust violation in a crisis situation compared to ordinary economic circumstances.

In another case, personal competency trust was lost due to the fact the customer requested a renegotiation after publicly underestimating the impact of the crisis. Others highlighted good economic condition is an important criteria when considering working with another party. They reported it builds personal competency trust and it indicates that the other party is well managed. In these cases, trust in this tie to be a long-term partner decreased after it was revealed they did not have sufficient financial reserves. This indicates that good economic condition could be an important factor for trust-building. Research on challenges in times of a crisis, has shown that preparation is an essential factor. However, entrepreneurs were left with little to no chances to prepare for this crisis (Kuckertz et al. 2020). Our results indicate that even though entrepreneurs cannot foresee such events, they can take proactive measures

against it by managing their venture well. This can then lead to having more freedom to act in a way that builds trust in case of a crisis. This provides a good starting point for discussion and further research. The relation between the financial condition, the decisions a party makes during a crisis and the development of trust can be a subject for future studies.

The role of social trust seems to be the most significant factor when connecting to new ties, however, only in one case, a participant reported to have been involved in a new economic relationship. Thereby, no type of personal trust was in place, as there was no previous direct relationship. The entrepreneur solely relied on social trust to decrease the risks associated with this new tie. This goes in line with findings by Welter and Smallbone (2006) who emphasise the importance of network ties for creating legitimacy. This reliance on social trust occurs especially in situations where entrepreneurs cooperate with an unknown and therefore less trusted party. Although social trust facilitated this tie at first, it is likely that after the entrepreneur starts to engage and conduct business with the other party, personal goodwill trust and personal competency trust can be built. Future research could investigate how personal trust develops among ties where the economic relationship has originated in a crisis situation.

Practical implications

Upon reviewing the empirical results of this study in relation to existing literature, it could be argued that a crisis situation provides a unique context for trust development. On the one hand the increased uncertainty entrepreneurs face can be seen as an opportunity to build the strongest type of trust, given they act with both parties' best interest in mind. On the other hand, our findings show that the development can go the other way. When parties fail to be transparent or act in a dishonest way, thus violating trust. We argue that a crisis like this can serve as a catalyst for the development of trust between relational embedded ties. These results are of direct practical relevance, indicating how crucial it is for entrepreneurs to show understanding when other parties can not deliver as expected due to the challenges a crisis brings. Furthermore, entrepreneurs should also be transparent and engage proactively in finding solutions when they can't deliver themselves in order to nurture trust.

Limitations

The findings of this study should be treated with care, as there are certain limitations that should be taken into account. Besides the limitations regarding methodology, it should be noted that the academic framework of this study brought restrictions on time and scope. Welter and Smallbone (2006) suggest that trust is a dynamic phenomenon, which ideally requires longitudinal studies in order to convincingly investigate. Due to time constraints, we have not been able to take this approach. Furthermore, trust could be influenced by other underlying factors that have not been considered in this study. Lastly, it is worth mentioning that this study was conducted during the COVID-19 crisis and the short- and long terms effects are still uncertain to a large extent. As the context changes, the challenges and the way it influences trust development could also be subject to change.

Future research

This study adds to existing theory on challenges and coping strategies in times of crisis (Runyan 2006; Grube & Storr, 2018; Kuckertz et al. 2020). Furthermore it puts previous studies on relational embeddedness and trust development (Hite, 2003; Hite 2005) in a unique context. Thus, it lays fertile groundwork for future research on trust development in the context of a global crisis. To gain a deeper understanding, longitudinal studies could be conducted in order to understand the development of trust and the phenomena that influence this process. Additionally, scholars could conduct comparative studies on how trust development during crises could differ among different cultures.

5. Conclusion

The aim of this study was to examine the development of trust of entrepreneurs in their relationally embedded ties when dealing with challenges emerging due to the COVID-19 outbreak and its countermeasures. To further explore this complex issue, relevant literature in the field of entrepreneurship as well as social science has been reviewed. Based on this, our study followed a qualitative and mostly inductive research approach, whilst building on the theoretical framework of Evolutionary Processes of Relational Embedded Ties (Hite, 2005). As a result of conducting nine semi-structured interviews with entrepreneurs, several COVID-related challenges could be identified. Furthermore, we gained insight into the effects these setbacks had on trust development between the entrepreneurs and their ties.

Never let a good crisis go to waste. This quote has been applied to many, mainly political situations. Despite all the adversity a crisis such as the COVID-19 pandemic brings, our research shows that its effects are not entirely negative. We argue that entrepreneurs can also take advantage of a crisis, especially when it comes to dealing with its associated challenges. The different coping strategies described in this paper demonstrate how crucial it is for entrepreneurs to leverage their social networks. More specifically, it was revealed that many parties found themselves even more dependent on their relationally embedded ties than in usual situations. This occurred sometimes voluntarily, when the tie was facilitated by trust, and sometimes involuntarily, when it was necessary to change the strategy and work together with new ties. In the case of the latter, entrepreneurs had to take the risk and provide trust in advance. We found that because of this dependence in this critical situation, the strongest type of trust, personal goodwill trust, can be developed. However, only on the condition that the party lives up to the expectations of the trustor. Thus, crises can be seen as an unique opportunity for entrepreneurs to strengthen the trust of their ties. This can ultimately lead to long term benefits for entrepreneurs and their ties. It should be noted however, that this effect can also be reversed if the trusted party fails to be open and transparent about their situation.

Taken together, it could be argued that global crises can serve as an accelerator for trust development. In order to facilitate the development of trust, entrepreneurs could tackle the high uncertainty brought through a crisis by being transparent and honest towards their relationally embedded ties and together with them, seek creative solutions.

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Appendix - A

Interview questions

Introduction

- Welcome and thank you for your time
- Short introduction of who we are, Felix & Joost
- Explanation of the general aim of our research
- The interview should not take more than an hour
- Obtain permission to record the interview
- The transcription and recording will not be open to the public, the information will be and we will probably use some quotes. All information will be anonymized so it cannot be traced back to you or the people we have discussed.
- If you want to take a break or if there is anything else, feel free to let us know. If there are any questions you wish not to answer, just let us know.
- Do you have any questions for us before we get started?

We will first ask some questions about you, then about how the corona affects your business and at last, we will ask about your personal relations.

1. General

- To start off, could you take a minute to introduce yourself?
- Can you briefly tell us about your business?
 - Are there any co-founders/investors?
 - How many employees do you currently have?
 - What industry are you acting in?
- Could you briefly tell us about your biggest success moment with your business?

Transition: “We will now move on to asking some questions related to the corona outbreak.”

2. Challenges

Many businesses are affected by the corona outbreak and this can create different challenges.

- How does this development affect your business?
- What challenges does that bring for you?
- How did you react to those challenges?

3. Exploring relations

- Could you highlight some connections/relations you have worked together with to overcome these challenges?

Backup questions:

- This could be any connection that is involved? (for example; clients, suppliers, investors, friends or family)
- Is there another connection/relation that has changed due to the corona outbreak?
- How has the corona outbreak affected the way you work together with your connections? Can you name some examples?

Follow up questions:

- Could you name a connection that throughout this crisis, you have gotten a stronger relationship with?
- Is there a connection that throughout this crisis, you trust a little less?

Transition: We will now go more into detail about each of your connections/relations.

4. Relationally embedded ties

- How do you know the person XYZ?
- How have you worked together with this person before the Corona outbreak?
- How are you working together during this crisis?
- How has the relationship with person XYZ changed since the COVID-19 outbreak?
- So in conclusion: What role does this person play in your effort to overcome this setback?

5. Trust

- Can you describe in what way you trust this person?
- Do you trust that this person, in general, will always look out for your best interests?
- How have you worked together with this person?
- Based on your professional experience with that person, how confident are you in their abilities and expertise in their field?
- To what extent are your networks connected? (Can you tell us about any common relations that you have with person XYZ)
- In conclusion, can you describe how the trust has developed throughout this crisis situation?

Wrap up

- Thank you again for your time
- How did you experience the interview?
- Would it be okay to reach out if we have some additional questions
- Propose to send the final thesis if they are interested.
- Do you have any questions? If not, feel free to reach out if you have any.