

Entrepreneurs, Distrust, and Third Parties¹

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This chapter is about the tension between two understandings of the role played by social networks in the distribution of information and control, and so resources, within markets and hierarchies. Structural hole theory focuses on the benefits of entrepreneurial opportunity. Network theories of cohesion focus on the benefits of security. They contradict one another on the issue of trust, a contradiction resolved by a network theory of trust and distrust induced by gossip. Distrust is a strategic research site for distinguishing the theories. I present illustrative evidence from words and phrases that senior managers use to explain why they have had so much trouble working with their most difficult colleague. As predicted by the gossip argument, explanations are prone to hostility and character assassination when embedded in strong third-party ties. My summary conclusion from the review and evidence is that the cohesion argument is true, but incomplete, and incomplete in a way that eliminates the social capital contradiction between brokerage and cohesion.

TRUST IN PRIVATE GAMES

Let me begin with the part of the story on which everyone seems to agree: dyads. This is the most rudimentary social context for trust — two people in isolation. Their interaction games

¹This chapter includes material from Burt (1997) on the structural hole argument and Burt (1998) on the gossip argument. For comments and new leads I am grateful to Sally Blount, Greg Janicik, Tory Higgins, Joshua Klayman, Richard Moreland, Joel Podolny, Holly Raider, James Schragar, Adrian Tschoegl, and Marla Tuchinsky.

are private in the sense that their behavior is only displayed to one another, and trust is a function of the history of their exchanges with one another.

Private games are the setting for much of exchange theory in American sociology. Two prominent examples are Homans' (1961) analysis of social behavior, and Blau's (1964) analysis of social exchange (see Ekeh, 1974:81-187, for historical exegesis of the individualistic British-American version of exchange theory contrasted with the French collectivist variant from Durkheim and Levi-Strauss, and Blau, 1994:152-172, for Blau's contemporary view, esp. pp. 156-158, explaining his continued focus on dyadic exchange). Blau (1964:112-113) argues that trust develops because social exchange involves unspecified obligations for which no binding contract can be written. When you exchange sensitive information with someone, for example, trust is implicit in the risk you now face that the other person might leak the information. Putting aside Blau's moral obligation aspect of exchange to focus on parameters of cost-benefit calculation (cf. Ekeh, 1974:175), Coleman (1990: Chap. 5) captures trust more concretely for his systems of two-party exchange: Trust is committing to an exchange before you know how the other person will behave. You anticipate cooperation from the other person, but you commit to the exchange before you know how the other person will behave.

This is trust, pure and simple. Anticipated cooperation is a narrow segment in the spectrum of concepts spanned by richer images such as Barber's (1983) distinctions between trust as moral order, competence, and obligation. However, anticipated cooperation is much of the trust essential to people in organizations. The issue isn't moral. It is flexible cooperation. This point is nicely illustrated in fieldwork by Macauley (1963) and Uzzi (1996). Macauley (1963:61) quotes one of his local Wisconsin purchasing agents; ". . . if something comes up, you get the other man on the telephone and deal with the problem. You don't read legalistic contract clauses at each other if you ever want to do business again. One doesn't run to lawyers if he wants to stay in business because one must behave decently." Uzzi (1996) offers a similar quote from one of his New York garment district managers; "With people you trust, you know that if they have a problem with a fabric they're just not going to say, 'I won't pay' or 'take it back.' If they did then we would have to pay for the loss.

This way maybe the manufacturer will say, 'Hey, OK so I'll make a dress out of it. Or I can cut it and make a short jacket instead of a long jacket.'" Macauley (1963:61) offers a nice summary quote from another of his local businessmen; "You can settle any dispute if you keep the lawyers and accountants out of it. They just do not understand the give-and-take needed in business."

Viewed as anticipated cooperation, trust is twice created by repeated interaction; from the past and from the future. From the past, repeated experience with a person is improved knowledge of the person. Cooperation in today's game is a signal of future cooperation. Across repeated games with cooperative outcomes, you build confidence in the other person's tendency to cooperate. At minimum, the cumulative process can be cast as a statistical decision problem in which you become more certain of the other person across repeated samples of the other person's behavior. The repetition of cooperative exchange promotes trust. More generally, the cumulative process involves escalation. From tentative initial exchanges, you move to familiarity, and from there to more significant exchanges. The gradual expansion of exchanges promotes the trust necessary for them. Whatever the cumulative process, past cooperation is a basis for future cooperation (cf. Zucker, 1986, on process-based trust; Staw & Ross, 1987, on commitment escalation; Larson, 1992, on the importance of the long term for trust between firms; Lawler & Yoon, 1996, for laboratory evidence; Sheppard and Tuchinsky, 1996, for review in organizational behavior; Stinchcombe, 1990:164-165, on the information advantages of current suppliers for building trust; Gulati, 1995, for empirical evidence). Further, the history of cooperation is an investment that would be lost if either party behaved so as to erode the relationship — another factor making it easier for each party to trust the other to cooperate. Blau (1968:454) summarizes the process as follows: ". . . social exchange relations evolve in a slow process, starting with minor transactions in which little trust is required because little risk is involved and in which both partners can prove their trustworthiness, enabling them to expand their relation and engage in major transactions. Thus, the process of social exchange leads to the trust required for it in a self-governing fashion." Where sociologists explain trust emerging from past exchanges (e.g., Coleman, 1990; Granovetter, 1992), economists look to the

incentives of future exchanges (e.g., Kreps, 1990; Gibbons, 1992:88ff). The expectation that violations of trust will be punished in the future leads players to cooperate even if defection would be more profitable in a single play of the game. The information contained in past experience and the potential for future interactions are inextricably linked. A player's willingness to forego short-term gains is based on the expectation that current behavior will be used to predict future behavior.

The summary conclusion is that trust is correlated with relation strength. Repeated cooperation strengthens the relationship between two people, increasing the probability that they trust one another.

TRUST IN PUBLIC GAMES, COHESION ARGUMENT: THIRD PARTIES FACILITATE TRUST

Relationships play out in a social setting of other people. The other people are third parties to the relationship and transform what was private into public. The dyadic story extends in a natural way to public games. If trust is likely within a strong relationship, it must be even more likely between people embedded in a network of friends and acquaintances. This extrapolation of the dyadic story is consistent with the idea of group cohesion, so I'll refer to the extrapolation as a cohesion argument. Applied to social networks, cohesion is a story about balance. Building on Heider's (1958) image of balance in relationships, key works on network balance and transitivity are Davis (1970), Davis and Leinhardt (1972), and Holland and Leinhardt (1970). Subsequent work was primarily methodological (for review, see Burt, 1982:55-60, 71-73; Wasserman & Faust, 1994:Chap. 14), but the central tenet of balance theory remained an equilibrium assumption that adjacent elements in social structure evolve toward consistency, i.e., toward balance. *Ceteris paribus*, ego's relation to alter should be consistent with ego's indirect relations to alter through third parties. If ego has a strong positive relation to someone, who feels the same way about alter, then ego should have a

strong positive relation to alter. The stronger the aggregate connection between ego and alter through third parties, the more likely that ego and alter trust one another.²

Examples of the cohesion argument are numerous (e.g., see Bradach & Eccles, 1989; Nohria & Eccles, 1992; Swedberg, 1993; and several chapters in Smelser & Swedberg, 1994, esp. Powell & Smith-Doerr, 1994). Two prominent examples are Coleman's (1990:Chaps. 5, 8, 12) analysis of trust and social capital, and Granovetter's (1985, 1992) discussion of trust emerging from "structural embeddedness" (trust is more likely between people with mutual friends): "My mortification at cheating a friend of long standing may be substantial even when undiscovered. It may increase when the friend becomes aware of it. But it may become even more unbearable when our mutual friends uncover the deceit and tell one another." (Granovetter, 1992:44). There is an analogous reputation effect in economic theory (e.g., Kreps, 1990): Indirect connections through mutual acquaintances (a) make game behavior more public, which (b) increases the salience of reputation, (c) making ego and alter more careful about the cooperative image they display, which (d) increases the probability of cooperation and trust between ego and alter.

ENTREPRENEURS AND STRUCTURAL HOLES

The strategic issue is deciding who to trust. It is on this issue that contradictions emerge. Under the brokerage principle in network theory, there is a competitive advantage to building certain relations: Resources flow disproportionately to people who provide indirect connections between otherwise disconnected groups. This is the principle underlying the

²Social identity theory makes a similar prediction. One of the theory's predictions is that trust is more likely between people who perceive themselves members of the same group, i.e., between people who have the same social identity (see Ashforth & Mael, 1989; Messick & Mackie, 1989, for reviews from business and psychology perspectives respectively; Kramer, Brewer & Hanna, 1995, for more recent review and research results). There are two network components in ego's attachment to a group; cohesive ties to individual members of the group, and a social boundary around the group. The relative and aggregate importance of these components for trust are the central empirical questions for social identity explanations of trust. The cohesive ties component is the cohesion argument discussed in the text, and subject to the same problem resolved by the gossip argument below. The social identity prediction is broader because it includes the social boundary component in group identity. My critique of the cohesion argument below addresses only the more narrow prediction discussed in the text.

structural hole theory of social capital, and the competitive advantage the theory predicts for entrepreneurial managers (Burt, 1992). Brief introduction is sufficient for the purposes of this chapter (see Burt, 1997, for more detailed exegesis). The theory draws on network arguments that emerged in sociology during the 1970s (most notably Granovetter, 1973, on the strength of weak ties; Freeman, 1977, on betweenness centrality; Cook & Emerson, 1978, on the benefits of having exclusive exchange partners; and Burt, 1980, on the structural autonomy created by network complexity). More generally, sociological ideas elaborated by Simmel (1922) and Merton (1957), on the autonomy generated by conflicting affiliations, are mixed in hole theory with traditional economic ideas of monopoly power and oligopoly, to produce network models of competitive advantage.

Figure 1 illustrates the gist of the argument. In an imperfect market, there can be multiple rates of return because disconnections between individuals, holes in the structure of the market, leave some people unaware of the benefits they could offer one another. Structural holes are the gaps between nonredundant contacts. The hole is a buffer, like an insulator in an electric circuit. As a result of the hole between them, two contacts provide network benefits that are in some degree additive rather than redundant. In Figure 1, James has a network that spans one structural hole (the relatively weak connection between a cluster reached through contacts 1, 2, and 3 versus the other cluster reached through contacts 4 and 5). The structural hole between the two clusters does not mean that people in the two clusters are unaware of one another. It means that the people are so focused on their own activities that they have little time to attend to the activities of people in the other cluster. A structural hole indicates that the people on either side of the hole circulate in different flows of information. The structural hole is an opportunity to broker the flow of information between people, and control the form of projects that bring together people from opposite sides of the hole.

Robert took over James's job and expanded the social capital associated with the job. He preserves connection with both clusters in James's network, but expands the network to a more diverse set of contacts. Robert's network, adding three new clusters of people, spans ten structural holes.

———— Figure 1 About Here ————

Information benefits are enhanced in several ways. The volume is higher simply because Robert reaches more people indirectly. The diversity of his contacts means that the quality of his information is also higher. One cluster is considered a single source of information because people connected to one another tend to know the same things at about the same time. Nonredundant clusters provide a broader information screen, providing better assurance of being informed of opportunities and impending disasters (access benefits). Further, since Robert's contacts are only linked through him at the center of the network, Robert is the first to see new opportunities created by needs in one group that could be served by skills in other group (timing benefits). Robert lies at the crossroads of social organization. He has the option of bringing together otherwise disconnected individuals where it would be rewarding. Further still, Robert's more diverse contacts means that he is more likely to be a candidate discussed for inclusion in new opportunities (referral benefits). These benefits are compounded by the fact that having a network that yields such benefits makes Robert more attractive to other people as a contact in their own networks.

The manager who creates a bridge between otherwise disconnected contacts has a say in whose interests are served by the bridge. The disconnected contacts communicate through the manager, giving the manager an opportunity to adjust the manager's image with each contact. As the broker between otherwise disconnected contacts, a manager is an entrepreneur in the literal sense of the word — a person who adds value by standing between others. Accurate, ambiguous, or distorted information is strategically moved between contacts by the broker. The information and control benefits reinforce one another at any moment in time, and cumulate together over time.

Networks rich in structural holes present opportunities for entrepreneurial behavior. The network contains opportunities to build bridges between otherwise disconnected contacts. The behaviors by which managers develop these opportunities are many and varied, but the opportunity itself is at all times defined by a hole in the social structure around the manager. In this framework, networks rich in the entrepreneurial opportunities of

structural holes are entrepreneurial networks, and entrepreneurs are people skilled in building the interpersonal bridges that span structural holes.

Managers with contact networks rich in structural holes are the individuals who know about, have a hand in, and exercise control over, more rewarding opportunities. They monitor information more effectively than bureaucratic control. They move information faster, and to more people, than memos. Entrepreneurial managers know the parameters of organization problems early. They are highly mobile relative to bureaucracy, easily shifting network time and energy from one solution to another. More in control of their immediate surroundings, entrepreneurial managers tailor solutions to the specific individuals being coordinated, replacing the boiler-plate solutions of formal bureaucracy. To these benefits of faster, better solutions, add cost reductions; entrepreneurial managers offer inexpensive coordination relative to the bureaucratic alternative.

In sum, managers with networks rich in structural holes operate somewhere between the force of corporate authority and the dexterity of markets, building bridges between disconnected parts of the firm where it is valuable to do so. In comparisons between otherwise similar people like James and Robert in Figure 1, it is the people like Robert who are predicted by the hole argument to be more successful. They are. Managers with networks rich in structural holes receive more positive evaluations (Rosenthal, 1996; Burt, Jannotta & Mahoney, 1998; cf., Krackhardt & Stern, 1988; Fernandez & Gould, 1994), earlier promotions (Burt, 1992; Sparrowe & Popielarz, 1995; Gabbay, 1996; Podolny & Baron, 1997), and higher compensation (Burt, 1997; Burt, Hogarth & Michaud, 1997).

TENSION

Trust is critical to the value added by entrepreneurs but it is not developed as an issue in structural hole theory or the earlier network arguments about brokerage. Relations are taken for granted (Freeman, 1977; Cook & Emerson, 1978; Burt, 1980), or trust is put aside as person-specific and presumed resolved by the able entrepreneur (Burt, 1992:16).

There is reason to expect entrepreneurs to have special problems with trust. In the imaginary markets where competition is perfect, you can trust the system to provide a fair return on your investments. However, entrepreneurs thrive in imperfectly competitive markets; markets perforated by structural holes. In the reality of imperfect markets, you have to rely on personal contacts. Reconsider Robert and James in Figure 1. The cohesion view is that James can have more trust in his contacts, and they in him, because of dense third-party connections reinforcing the individual relationships. Robert is at a disadvantage in this view because his relationships have no third-party support.

The awkward issue is that research on network structure and achievement shows that it is people like Robert, with networks rich in structural holes, who have the competitive advantage. Mizuchi (1992: Chap. 4) provides a thorough review toward the conclusion that cohesion needs to be distinguished from business unity, but it is more usual to see cohesion invoked by organization analysts as an antecedent to trust and cooperation. Thus the tension: either trust is not critical to network entrepreneurs — a proposal that flies in the face of common sense — or the cohesion story is in some way flawed about how trust is associated with third parties.

TRUST IN PUBLIC GAMES, GOSSIP ARGUMENT: THIRD PARTIES AFFECT INTENSITY, NOT DIRECTION

The tension between brokerage and cohesion can be resolved with an alternative view of the connection between trust and social context. There is at least one significant difference between private and public that is ignored in the cohesion argument. The quality of information in public games is more complex. The two people in a private game have direct experience of one another. Third parties bring a qualitatively different kind of experience to the relationship. Third parties can enter the dyadic game in any of three roles; observer, intruder, or gossip. The minimum role is to observe; watching or listening, but saying and doing nothing. The most intrusive role is to exercise some control over the game, guiding ego and alter toward a target relationship. Between these extremes is the rich diversity of

ways in which third parties affect relationships by telling stories; not stories in the sense of deception, just stories in the sense of personal accounts, gossip, about the exchanges between people. These stories are the focus of a network argument in which trust and distrust emerge from gossip (Burt & Knez, 1995; Burt, 1998). The argument is about the bias created by gossip in ego's evaluation of alter's trustworthiness. For the purposes here, I present the intuition behind the argument and connect it with related arguments in other fields.

The gossip argument is anchored on ego deciding whether to trust alter, with ego and alter surrounded to some (measured) extent by third parties. Ego's decision is based on two kinds of information; personal experience with alter (which could be nothing, or could be substantial), and vicarious experience in third-party stories about alter. To the extent that vicarious play invokes the emotions of actual play, stories about alter's behavior lead ego to feel as though he knows alter better than he does. The central point in the gossip argument is that ego's vicarious interaction with alter is a predictably biased sample of information on alter.³ Predictions are based on social bias in ego's selection of third parties, and the conversational etiquette of gossip that biases what ego hears from third parties.

The first social mechanism is a selection bias in ego's choice of third parties, call it a balance mechanism as discussed above in the cohesion argument. Faced with a decision about whether to trust alter, ego turns for information on alter to trusted contacts before less close contacts. People especially close to one another are likely to have similar views, so ego's trusted third parties are likely to report accounts of alter consistent with ego's own view of alter. In other words, a preference for trusted third parties before more distant contacts

³This is a scope condition to the gossip argument. Not included in the argument are third parties strategically inserted between ego and alter to strengthen or weaken their relationship. Beyond the exclusion of third-party facilitators and authority third parties in a corporate or legal hierarchy (e.g., Coleman, 1990:43-44, on complex relations; Black & Baumgartner, 1983; Black, 1993:Chap. 6, on third parties in the legal process; and Morrill, 1995:92-140, for ethnographic illustration of the Black and Baumgartner view applied to managers), the gossip argument ignores third parties giving information to ego toward the goal of controlling or punishing alter (e.g., Black, 1995:855n; "gossip is the handling of a grievance by an informal hearing in absentia — in the absence of the alleged offender."). Third parties in the gossip argument are responding to a friend's (ego) request for a story about alter. They are motivated by their relationship with ego and the rules of conversational etiquette. As Gambetta (1994:11) so nicely puts it in his review; "Gossip does not work well if the receiver suspects ulterior motives behind the transmitter's story."

means that ego draws a sample of information on alter likely to reinforce ego's predisposition toward alter.

The second mechanism is a selection bias in the information that third parties share with ego, call it an etiquette mechanism. It is polite in casual conversation to go along with the flow of sentiment being shared. We tend to share in conversations those of our facts consistent with the perceived predispositions of the people with whom we speak, and facts shared with other people are facts more likely to be remembered. Thus, the biased sample of facts shared in conversations becomes the population of information on, and so the reality of, the people discussed.⁴ Returning to ego's trust in alter, when ego expresses a predisposition toward alter (implicitly or explicitly), third parties with positive and negative information on alter can be expected to select from their repertoire of stories about alter a story consistent with the flow of the conversation. If ego seems to trust alter, the third party relays stories of games in which alter cooperated. If ego seems to distrust alter, the third party relays stories in which alter defected. Ego's predisposition toward alter is apparent from a variety of cues ranging from the subtle nuance of a raised eyebrow or a skeptical tone of voice when describing alter, to the blatant signal of expressing a positive or negative opinion.⁵ Having

⁴The etiquette mechanism is widely discussed (e.g., Grice 1975, on cooperative in conversation; Nyberg 1993, on the need for deception in ordinary life; and for review: Klayman 1995, pp. 393-401; Chaiken, Wood and Eagly, 1996). For example, Higgins (1992) describes an experiment in which an undergraduate subject is give a written description of a hypothetical person (Donald). The subject is asked to describe Donald to a second student who walks into the lab. The second person is a confederate who primes the conversation by leaking his predisposition toward Donald ("kinda likes" or "kinda dislikes" Donald). Subjects distort their descriptions of Donald toward the expressed predisposition. Positive predisposition elicits positive words about Donald's ambiguous characteristics and neglect of negative concrete characteristics. Negative predisposition elicits negative words about Donald's ambiguous characteristics and neglect of positive concrete characteristics (c.f. Backbier, Hoogstraten and Terwogt-Kouwenhoven, 1997, for related evidence on the situational acceptability of telling lies).

⁵The etiquette mechanism and its consequences are familiar to me from conversations with colleagues and senior managers but I know of no published fieldwork that offers ethnomethodological analysis of sustained conversation between senior managers. Fortunately, the etiquette mechanism described in the text is a generic feature of gossip and so equally evident in conversation at lower levels and outside the corporation. Fine (1986: 409) summarizes his analysis of teenager gossip as follows: "Teenagers must present actions which are susceptible to several possible interpretations in ways which are likely to be supported by other speakers, either through ratification utterances or by story-chaining. The audience members actively or tacitly ratify the speaker's remarks, even if they disagree with the talk in principle. Interactants have techniques by which they can express their disagreement — through later contrary examples (which, too, are usually not disagreed with) or by audience role distance through joking interjections." This is precisely the etiquette mechanism of going along with the flow of the conversation and has the predicted consequence of amplifying certainty about others (e.g., Fine notes the exaggerated opinions in which some teenagers can "do no wrong," while others can "do no

shared a story featuring certain alter behaviors, ego and the third party are thereafter more likely to think of alter in terms of the behaviors discussed. Thus, the etiquette mechanism encourages third parties to selectively disclose information on alter that is consistent with ego's predisposition toward alter, with the result of reinforcing ego's predisposition toward alter.⁶

The etiquette mechanism serves mutual interests: Etiquette is the foundation for civility. It allows people of diverse backgrounds and interests to ignore social differences that would otherwise interrupt the flow of conversation. Etiquette can be efficient. In the press of other demands, corroborating ego's predisposition ends the discussion without seeming rude. Corroboration brings closure with minimum effort. Etiquette strengthens relationships. Relaying a story about alter consistent with ego's predisposition highlights the social similarity between ego and third party with respect to other people — a concrete indicator that the third party's values are consistent with ego's. Moreover, there is the history of exchanges to consider. As third parties strengthen their relations with ego by offering information about alter consistent with ego's predisposition toward alter, ego strengthens his or her relation with the third party by asking for the information and responding to third-party opinion. When you and I discuss our views of John, we reinforce our relationship with one another and narrow the confidence interval around our joint opinion of John. Conversations about social structure are an integral part of building and maintaining relationships, with the primary effect of reinforcing the current structure (a familiar idea in

right.”).

⁶An alternative intuition is to say that ego is misled by a lower quality of information in gossip. For example, Gilovich (1987) shows undergraduates a video of a person describing "something you are not too proud of" then asks them to describe the person on audio tape and rate the person on 7-point scales from negative to positive. A second subject then hears the audio description and rates the person. Evaluations by the students with second-hand knowledge from audio tape are more extreme in blaming the person for the bad behavior. Gilovich argues that second-hand accounts elicit more extreme evaluations because the second-hand accounts tend to leave out mitigating circumstances and situational constraints. This intuition is an uncomfortable theoretical assumption because third-party accounts are reduced to "cheap talk" which should be discounted by ego (e.g., Gibbons, 1992:210ff, on cheap-talk games). Why should ego believe a third-party account stripped of situational details? The gossip argument asks for less naiveté on ego's part. The gossip argument is that third-party accounts are accurate, but not representative. Other things being equal, each third party has positive and negative stories about alter. Ego receives complete stories, but not a representative set of stories. Ego cannot know s/he is getting a subset of information biased toward the positive (or toward the negative) because ego does not know the scope of each third party's information on alter.

sociology, illustrated in the extreme case by Durkheim's views on the social value of criminals, see footnote 10). Ego's search for information on whether to trust alter is less often a search de novo than it is a search for a quick update on stories vaguely recalled; "Didn't you once have some trouble working with John?"⁷

The two mechanisms need not be equally relevant to a situation. Balance could be dominant in small groups. Etiquette could be dominant in large groups differentiated in time or space. Whatever their relative impact on a specific pair of people, either mechanism is sufficient to bias vicarious play to be consistent with ego's predisposition toward alter.

That is the gist of the argument: (1) Ego has vicarious play with alter in third-party gossip. (2) The alter behavior to which ego is exposed is biased by balance or etiquette to be consistent with ego's predisposition toward alter. (3) The higher volume and greater homogeneity of information associated with third-party gossip make ego more certain about alter. Ego more certain means ego more likely to trust or distrust alter (as opposed to remaining undecided between the two extremes). Favorable opinion is amplified into trust. Doubt is amplified into distrust.⁸

⁷This sentence on ego's search highlights the role that confirmation bias could play in the predicted effect of the etiquette mechanism. With respect to ego, alter, and third parties, the gist of the evidence is twofold: (a) ego's search for information on alter is biased toward third-party stories consistent with ego's predisposition toward alter (see Klayman, 1995:387-393, for a review of evidence), and (b) ego is more likely to believe stories consistent with ego's predisposition toward alter (see Klayman, 1995:393-401). The first of these two points is the more unique to confirmation bias. Wason's (1960) "2-4-6 task" is an often-cited illustration. Klayman (1995:388-389) summarizes the view from cognitive psychology: "The experimenter has in mind a rule that generates sets of three numbers (triples). The subject must try to discover the generating rule by proposing triples, which the experimenter identifies as fitting or not fitting the rule. To begin, the experimenter tells the subject that the triple 2, 4, 6 fits the generating rule. From that point on, the subject proposes triples one at a time, with the experimenter responding yes or no. In the original version of this rule-discovery task, subjects were told to stop proposing triples when they were 'highly confident' they had the correct rule. Wason found that subjects often developed considerable confidence in a hypothesis on the basis of inconclusive data. When subjects formed a hypothesis about the rule that generated the triples (e.g., increasing by two), they most often tested instances that fit their hypothesis (e.g., 5, 7, 9; 10, 12, 14; 106, 108, 110). All these triples received 'yes' responses, and subjects became convinced that they had quickly found the rule. In most cases, they did not discover that Wason's rule was in fact more general, namely 'numbers in ascending order.' Wason referred to this as confirmation bias, because subjects performed tests that were aimed at confirming a current belief. To find the correct rule, subjects had to test triples that did not fit the rule they thought correct, such as 1, 2, 3." In short, ego tends not to look for evidence that could disconfirm his or her predisposition toward alter (see Klayman & Ha, 1987, on confirmation versus disconfirmation; cf., Burt's, 1998:Appendix, contrast between a Groucho and a Gossip information search).

⁸Notice how simply this eliminates the monitoring problem that Hechter (1987; 1990:243-244) uses to drive his argument about dependence and formal control being necessary conditions for group solidarity. Hechter (1987:73-77) takes issue with Axelrod's (1984:Chap. 4) use of the live-and-let-live system of trench

PRIMARY PREDICTION: LOCAL THIRD-PARTY EFFECT

The predicted third-party effect is illustrated in Figure 2. Strength of direct connection varies on the horizontal axis from a weak relationship at the left to a strong relationship at the right. Thin lines describe relations free of third parties. Bold lines describe relations embedded in strong third-party ties. Tracing the solid lines to the right of the graph, the probability of trust increases with the strength of a relationship. Third parties increase the probability of trust above and beyond the level expected from the strength of the relationship. Tracing the dashed lines to the left of the graph, the probability of distrust increases in weaker relationships. Third parties increase the probability of distrust above and beyond the level expected from the strength of the relationship. Third-party gossip amplifies relationships to positive and negative extremes, and anchors relations at the extremes, by making ego more certain of alter. At a given strength of relationship, ego's opinion of alter is more certain when embedded in strong third-party connection. Ego more certain of alter is more likely to trust (or distrust) alter.⁹

warfare to illustrate the idea that cooperation emerges in even the most difficult circumstances if players anticipate future interaction with one another. Hechter stresses the implicit monitoring necessary to the live-and-let-live system, the difficulty of monitoring even between the two armies which is analogous to a two-player game, and the implausibility of that monitoring (without formal controls) in games of more than two players (see Macy, 1991:827-829, for illustration with simulated prisoner's dilemma games; Knez and Camerer, 1994, for laboratory illustration with weakest-link coordination games). In other words, cooperation is more difficult in larger groups. Hechter's argument presumes that everyone monitors everyone else; whereupon monitoring is more difficult in larger groups. The gossip argument is less demanding. Everyone is relatively ignorant, but increasingly informed by third parties with increasing indirect connection. All it takes is one third party to relay stories between a pair of people. Systemic properties of amplified trust and distrust emerge from the micro-social context around individual pairs of people. The monitoring problem reduces to realistic proportions. The whole population doesn't monitor your behavior, just your closest friends and co-workers (e.g., Janowitz & Shils, 1948, on why the German Wehrmacht continued to function toward the end of World War II despite repeated defeats; monitoring was between buddies in the squad, and the army was a system of interlocked squads; cf. Marshall, 1947: Chap. 9, on the corresponding effect of "tactical cohesion" in the American forces).

⁹This prediction has an analogy in overconfidence research. Overconfidence refers to people who believe in something with a probability higher than is accurate (e.g., Kahneman, Solvic & Tversky, 1982: Part IV; see also Prendergast & Stole's, 1996, economic analysis of overconfidence in terms of information consistency as an indicator of accuracy). Here is typical evidence: For a sequence of predictions, plot each prediction on a vertical axis by the prediction's actual probability of being true and on a horizontal axis by the average subject's expressed probability of the prediction being true. To the extent that subjects are accurate, their expressed probabilities equal the actual probabilities so the data points define a 45 degree diagonal line between the axes. Subjects are overconfident to the extent that data points lie below the diagonal (indicating incorrectly high perceived probabilities). An analogous view of the third-party effect would have a horizontal

SECONDARY PREDICTION: BROADER THIRD-PARTY EFFECT

Trust and brokerage are now aligned. Rather than trust being a phenomenon in opposition to the value added by entrepreneurs, it is a natural correlate. Recall the tension between cohesion and brokerage illustrated by Robert and James in Figure 1. The cohesion argument predicts that James can have more trust in his contacts, and they in him, because of the dense third-party connections reinforcing each individual relationship. Robert is at a disadvantage in this view because his relationships have no third-party support. The awkward issue is that evidence on network structure and achievement shows that it is people like Robert, with networks rich in structural holes, who have the competitive advantage. Within the gossip argument, however, the advantage remains with Robert because he is less subject than James to the distortions of third-party gossip.

————— Figure 2 About Here —————

Information and control explain why Robert is less affected, and in the same way that they define the competitive advantage of access to structural holes. With respect to information, Robert's advantage is not that he is less exposed than James to third-party gossip. The advantage is that he is exposed to more contradictory gossip. The structural holes among Robert's contacts mean that they circulate in separate flows of information. *Ceteris paribus*, Robert's contacts are more likely than James's to know different things about alter. More variance in the third-party gossip to which Robert is exposed has two implications: (1) Robert is more likely to be skilled in expecting and making sense of

axis measuring ego's evaluation of alter's trustworthiness (e.g., "On a scale of 0 to 100, indicate the probability that you trust alter to cooperate in the next game.") The vertical axis would be the actual probability (typically unobserved). Ego's perceived probability is expected to be amplified by third-party gossip. There is no measure of true probability, but the strength of the direct connection between ego and alter is an indicator of the empirical evidence available to ego for his or her evaluation of alter trustworthiness. When the strength of direct connection between ego and alter is held constant, and the probability of trust (or distrust) is inflated where ego is more exposed to third-party gossip, the result is evidence of an overconfidence effect induced by social context. The significant difference here is that there is no true probability of alter being trustworthy (see the "reality of negative relations" in footnote 11). The truth of alter is socially constructed between ego and selected third parties (e.g., Gambetta, 1994: 13; "Plausibility is more relevant than truth. A convincing story gets repeated because of its appeal not its truthfulness."). The gossip argument is not about truth, it is about certainty.

conflicting opinions. (2) Robert has an incentive to search for information from more distant third parties because his initial third-party accounts are less likely to corroborate one another.

With respect to control, the holes between Robert's contacts free him to negotiate third-party interpretations (as discussed above under the control benefits of structural holes). James, working within a clique of interconnected contacts, will have more trouble breaking away from third-party interpretations of relations. The person in a clique who resists the shared opinion of other people in the clique is suspect and can expect peer pressure to conform to the shared opinion. Further resistance risks being ostracized from the clique. The danger of group-solidarity policies for building cooperation (e.g., cohesive teams) is that the conditions of strong relations and dense indirect connections that can make it easier to trust within the group intensify distrust of people who don't conform to group views and make it more difficult to trust beyond the group. The results below on character assassination are vivid illustration, and the implications for rigid management are clear (cf. Janis's, 1972, intuition about groupthink; Zucker, 1977, on opinion rigidity in an ersatz office under very simple clique conditions of in-group communication).

In sum, managers like James in clique networks are exposed to more consistent third-party gossip about relationships, and more peer pressure to conform to the gossip. Managers in clique networks can be expected to have less experience with making sense of inconsistent interpretations of events, be more accustomed to relying on third-party interpretations of events, and so show more evidence of the amplified trust and distrust associated with third-party gossip. To coin a colloquial phrase, cohesion is structural arthritis; an information inflammation of the organizational joints. On the other hand, managers like Robert, the network entrepreneur, are more likely to make accurate judgments about who to trust and who to distrust. Robert is forced and freed by the inconsistency of the third-party gossip around him to synthesize his own interpretation of new relationships.¹⁰ Relative to James,

¹⁰With respect to synthesizing interpretations of events, the contrast between Robert and James is the contrast between Protestants and Catholics in Durkheim's (1897:158) analysis of suicide: "The only essential difference between Catholicism and Protestantism is that the second permits free inquiry to a far greater degree than the first. . . the Catholic accepts his faith ready made, without scrutiny. . . A whole hierarchical system of

Robert is more likely to make an accurate evaluation of whether he can trust alter, and likely to make his accurate evaluation quickly. To the extent that accurate judgments about who to trust and who not to trust matter, as they surely do in organizations, then Robert has a competitive advantage. It makes sense to see the accumulating research results in which managers like Robert are promoted faster, earn higher compensation, receive better performance evaluations, and serve on teams more recognized for superior performance.

STRATEGIC SIGNIFICANCE OF DISTRUST

The cohesion and gossip arguments are not everywhere equally contradictory. They make the same prediction about trust in strong relationships. Both arguments predict that the trust likely in a strong relationship, is more likely when the relationship is embedded in a network of third parties (right of the graph in Figure 2). Further, both arguments predict that distrust is more likely in weak relationships.

They differ in their predictions about the effects of third parties on distrust within weak relations. Cohesion predicts a direct effect in which strong third-party ties facilitate trust. The gossip argument predicts a contingent effect in which strong third-party ties amplify the emotional intensity, not direction, of ego's evaluation. The social process that makes ego more certainly positive can in the same way make for negative certainty. The direction of the

authority is devised, with marvelous ingenuity, to render tradition invariable. All variation is abhorrent to Catholic thought. The Protestant is far more the author of his faith. The Bible is put in his hands and no interpretation is imposed upon him. The very structure of the reformed cult stresses this state of religious individualism." I mention Durkheim's contrast first to better communicate my information-processing contrast between Robert and James by linking it to a more familiar information-processing contrast, and second to highlight a disadvantage to being a manager like Robert, namely, the lack of social regulation. Durkheim contrasts Protestants and Catholics in service of explaining why the former are more prone to suicide. Religion serves its function in part by resolving unanswerable questions through social consensus, but its social authority is less where individuals are in some significant way free to craft their own religion. Protestants are less protected from uncertainty by their religion and so more prone to suicide when events go wrong. Similarly, the inconsistent third-party gossip that forces managers like Robert (relative to managers like James) to craft their own interpretations means that they are less certain about their interpretations. I show elsewhere (Burt, 1998, from which illustrative evidence is presented here in Figure 4) that managers like Robert are less subject to the distortions of third-party gossip, and past research has shown that they are more successful, but the research is yet to appear describing the consequences of the higher levels of uncertainty with which they live — presumably the usual stress correlates such as heart attack, though even with respect to emotional states the social capital of complex networks can be argued to be positive (e.g., Seiber, 1974; Coser, 1975; Marks, 1977).

third-party effect depends on ego's predisposition toward alter. The effect of third-party gossip is to amplify ego's predisposition into a certainty about alter. The doubt reasonable within a weak relationship festers into distrust.

DISTRUST

Thus, distrust is a strategic research site for resolving the tension between the structural hole emphasis on entrepreneurial opportunity and the cohesion emphasis on security. The research design is simple. Gather data on a sample of weak relationships, some embedded in strong third-party ties, others embedded in little or no indirect connection through third parties. If trust is more likely with the strong third-party ties, the gossip argument is rejected in favor of cohesion, and we are forced back to the tension between manager success associated with structural holes while trust is associated with the lack of structural holes. If, on the other hand, distrust is more likely with the strong third-party ties, then the gossip argument is supported over cohesion, which means that the tension between cohesion and structural holes is resolved with trust a natural correlate of brokerage.

DERISION

The empirical test can be made in finer detail by analyzing the narratives associated with distrust. For simple reference, I refer to these narratives as derision. As third-party gossip amplifies the emotional intensity of distrust, it should make more severe and personal the rhetoric of derision.

Consider how one progresses to derision. Repeated interaction gives you reason to believe that a person cannot be trusted. Your initial meetings with a colleague, call him John, are difficult. You have little experience with John, so the difficulty of the initial meeting has alternative explanations — the problem could have been peculiar to those meetings (you caught John at a bad time, or you were a little more difficult than usual), or a function of the situation in which you had to deal with John (the issue under discussion was complex and ambiguous, the interests of your respective constituencies are difficult to align, etc.). However, with repeated contact, all of it difficult, you realize that the problem is

neither you nor the situation. The problem is John — and your advice to friends and colleagues is to avoid him. With each advisory discussion you punish John for the trouble he caused you, and do a service to friends better off avoiding John.

In fact, trust depends on derision. The sociology of the situation is that if we didn't have an occasional unscrupulous colleague, we would have to make him up.¹¹ By sharing stories about people who behaved unscrupulously we implicitly define scrupulous behavior, and communicate the threat of what happens to unscrupulous people. Character assassination is a useful imagery here. It is not enough that the disreputable person behaved poorly in a difficult situation in which anyone might behave poorly. Character assassination requires more personal content and moral indignation (cf. Adams, 1977: Chaps. 1-2, on "bad mouthing" or, more pertinently, Van Maanen, 1978, on "assholes").

Third-party gossip encourages an escalation in the rhetoric of derision. The gossip argument predicts that managers more exposed to third-party gossip have a vicarious feeling of repeated interaction such that they are more certain in their trust or distrust of a colleague. Extrapolating to the situation-to-person progression in attributing blame, managers more exposed to third-party gossip are more likely to interpret difficult relations in terms of the other person's personality — because they have heard corroborating stories about the other person. They are more certain that alter is the problem. A more certain manager is more likely to use strong words that express the certainty. Thus, difficult relations embedded in strong third-party ties are more likely to be described with severe and personal language attributing the difficulty to flaws in the other person's character.

¹¹This point is illustrated in Durkheim's (1893: Book 1, Chap. 2) classic analysis of the social value of criminals, productively developed in Erikson's (1966) analysis of crime waves. Durkheim offers text that enriches my few sentences (Durkheim, 1893:102, the bulk of which is also quoted in Erikson's, 1966:4, argument): "Of course, we always love the company of those who feel and think as we do, but it is with passion, and no longer solely with pleasure, that we seek it immediately after discussions where our common beliefs have been greatly combated. Crime brings together upright consciences and concentrates them. We have only to notice what happens, particularly in a small town, when some moral scandal has just been committed. They stop each other on the street, they visit each other, they seek to come together to talk of the event and to wax indignant in common. From all the similar impressions which are exchanged, from all the temper that gets itself expressed, there emerges a unique temper, more or less determinate according to the circumstances, which is everybody's without being anybody's in particular. That is the public temper."

There is a corollary network effect. The reality of negative relations is that they are more often than not a function of the two people involved than either person individually. A person with whom you have a difficult relationship enjoys positive relations with someone else.¹² Given the more diverse sources of information to which entrepreneurial managers are exposed, such managers are more likely to realize that difficult relations are not entirely the other person's fault. They should more often blame difficult relations on difficult situations and use neutral language in public explanations of the difficulty: "John and I just couldn't get together on that one." The reverse side to this prediction is that managers in clique networks are more likely to blame difficult relations on the other person, and be more certain in public exclamations about the other's faults: "John and I didn't get together on that one, but of course everyone has trouble with John."

We each believe that the people whose reputations we erode with derision deserve it, but the truth is that few of us were eye witnesses to the behavior deemed unscrupulous. Most of us were somewhere else, witnessing the behavior only vicariously through stories told by trusted colleagues. Moreover, we have little incentive to speak directly with the suspect person. You and I are brought together by sharing the story about unscrupulous behavior whether or not the story is true. Even if we were to speak directly with the suspect person, his or her version of the story would be deemed biased by self-interest. Only gossip seems to have the shimmer of unvarnished truth.

¹²The "reality of negative relationships" is clearly illustrated for me in peer evaluations among investment bankers. In one firm, for example, each officer is asked to name other officers in the firm with whom s/he had substantial and frequent business dealings during the preceding year, then asked to rate each cited colleague on a five-point scale for the adequacy of their job performance (1, for "unacceptable," to 5 for "outstanding"). Two features of the evaluations are illustrative: **J** Every officer is the object of negative and positive relations. Each officer has two or more people who say s/he is doing a poor job. The same officer has two or more people who say that s/he is doing a good job. In fact, the best predictor of the number of negative relations an officer receives is the total number of people citing the officer for any reason. More prominent officers have more admirers and more detractors. The total number of relations received has a .91 correlation with the number of positive relations, and a .80 correlation with the number of negative relations. **J** Analysis of variance across the 31,394 interpersonal evaluations breaks down into 26% attributable to differences between respondents (some officers use lower ratings on average), 15% attributable to differences between subjects (some officers receive lower ratings on average), and the remaining 59% of the variance measures qualities specific to the respondent-subject pair of officers. In other words, the distinction between positive and negative relations is a function more of the two people involved than either person individually (see Kenny & Albright, 1987:399, for a similar result in relations between undergraduates).

ILLUSTRATIVE EVIDENCE

Figure 3 and Figure 4 contain illustrative evidence of the amplification in Figure 2 predicted by the gossip argument. The evidence is discussed in detail elsewhere, so I will be brief to the purpose of this chapter (see Burt & Knez, 1995, for further discussion of Figure 3; Burt, 1998, for Figure 4). The figures describe relationships with 3,015 colleagues cited as core contacts by a probability sample of 284 senior managers in a large electronic components and computing equipment manufacturer.

EXPECTED THIRD-PARTY EFFECTS ON TRUST AND DISTRUST

Contacts are sorted on two dimensions in Figure 3; the strength of the manager's relationship with the cited contact (especially close, close, less close), and the strength of the manager's indirect connection through third parties to the contact (weak, strong). The third-party tie between manager and contact is "strong" if the manager's aggregate connection via third parties to the contact is stronger than the average for all 3,015 cited relationships. Bars in Figure 3 indicate the probability of trust and distrust in each of the six network conditions distinguished by the strength of the direct and indirect connection between manager and contact.

—— Figure 3 About Here ——

The graph at the top of Figure 3 shows the third-party effect on trust predicted by both cohesion and the gossip argument. These results are a quick construct-validity check to reassure you that the data conform to predictions on which cohesion and gossip agree. A contact is "trusted" if he or she is someone with whom the manager would discuss leaving the firm for a new job elsewhere. The bars are higher to the right of the graph showing that managers are more likely to trust people with whom they have an especially close relationship. The gray bars to the right are higher than the white bars showing that the managers are still more likely to trust someone with whom they are strongly connected through third parties (29.8 chi-square, 3 d.f., $P < .001$). For example, 170 of the 491 especially close relations embedded in a weak third-party tie are cited as trusted contacts. That 35% (white bar) increases to 51% (gray bar) if the third-party tie is strong.

The graph at the bottom of Figure 3 supports the gossip prediction over cohesion. Managers were asked "who has made it the most difficult for you to carry out your job responsibilities?" The question doesn't mention distrust explicitly, but I take this citation to be an indicator of distrust for two reasons: It is associated with other kinds of relations as I would expect distrust to be, and manager explanations for their citations indicate distrust of the uncooperative, repeated game kind (Burt & Knez, 1995). The point supporting the gossip argument is that distrust is associated with third parties (104.5 chi-square, 3 d.f., $P < .001$). Distrust is concentrated in weak relationships (as predicted by the cohesion and gossip arguments), but it is more likely in the weak relationships embedded in strong third-party ties (rejecting cohesion in favor of the gossip argument). The probability of a weak relationship being cited for distrust is .11 in the absence of third parties. That probability is more than three times higher if the weak relationship is embedded in a strong third-party tie (.38). In fact, third parties are more associated with amplified distrust than they are associated with amplified trust (evident in Figure 3 from the larger ratio of gray to white bar for distrust in weak relations versus trust in strong relations, see Burt & Knez, 1995: 269-270, for statistical analysis).¹³ Not only is there a dark side to network density, it equals or exceeds the potency of the familiar positive side of third parties facilitating trust.

ANGER AND BLAME

After naming their most difficult colleague, managers were asked to explain why the relationship was so difficult. The 256 explanations are tabulated in Figure 4 and a selection of illustrative explanations are listed in Table 1 (number in parentheses to the left of each

¹³It is tempting to conclude that third parties transmit negative gossip more readily than positive gossip, but I know only of anecdotal evidence on this point. Heath (1997) offers suggestive evidence. To find out whether people prefer to pass along good news or bad, Heath presented University of Chicago undergraduates with information about muggings in the university neighborhood. Some received more negative information (many muggings). The students were then asked how likely they would be to pass along the information in a conversation with an acquaintance if the topic of muggings came up. Students informed of an extremely high number of muggings were significantly more likely to claim that they would pass the information along. Heath has no behavioral data on whether students are actually more likely to pass along the more negative information, and it is a long step from undergraduates to managers, but the evidence is consistent with results in Figure 4 showing the stronger negative effect of third-parties.

explanation is a hostility score based on repeated semantic differential evaluations, 0 for no hostility to 100 for clear hostility).¹⁴ My hypothesis from the gossip argument is to expect more severe and personal language in the descriptions of difficult relations embedded in strong third-party ties.

———— Table 1 and Figure 4 About Here ————

Blame is the principal theme to the manager explanations. The examples in Table 1 illustrate how managers clarified in their explanations who or what is to blame for their most difficult relationship. Some explanations blame the other person in the difficult relationship, others blame the situation (see Rodin, 1985:826-834, and Ross & Fletcher, 1985, for reviews of work on Heider's, 1958, personal versus situational attribution; Blount, 1995, for more recent review). Situational attributions include complex or ambiguous work assignments (blame the work), generic difficulties with supervisors or subordinates or matrix organization (blame the role), or the problem could be your own fault as well as the other person (share the blame). Personal attributions are more numerous and more complex. In reading through the explanations, I had to distinguish two kinds of personal attributions significantly different with respect to the predicted third-party effect. Competence attributions are more neutral about the other person's character. Integrity and cooperation are not issues so much as the person's abilities (e.g., "promoted too high, too fast; beyond her level of experience). Character attributions explicitly blame the difficult relationship on a flaw in the other person's character (e.g., "egotistical; self-oriented; liar; worst manager I have ever met"). The hostility scores are correlated with, but distinct from, the three attribution categories (the attribution distinctions predict 47% of the variance in hostility scores).

Third parties are clearly associated with character assassination. The graph at the top of Figure 4 shows how the three kinds of explanations are distributed across combinations of

¹⁴I had a computer display each explanation at random and elicit a three-category evaluation of how hostile the manager seemed toward the cited colleague; (0) not hostile, (50) maybe hostile, or (100) definitely hostile. The hostility score analyzed in the text for each explanation is the average of four evaluations spread over four days. Coding the explanations for hostility must remain a subjective measurement and therefore suspect, however, the repeated measures, strong correlation among the measures, and low autocorrelation between adjacent measures are reassuring (see Burt, 1998, for details).

third parties and network structure. For example the 95 difficult relations embedded in weak third-party ties within a non-clique networks are 47% blamed on the situation (light gray bar), 51% blamed on the other person's competence, and 2% blamed on the other person's character (dark gray bar). The graph shows that the situational attributions are associated with weak third-party ties and character attributions are associated with strong third-party ties (106.6 chi-square, 4 d.f., $P < .001$). Character attributions are most associated with strong third-party ties within cliques (4.6 loglinear z-score in Figure 4).

The more extreme emotions associated with third parties are also evident in respondent hostility toward the difficult colleague. Box plots at the bottom of Figure 4 describe the distribution of hostility within each of four structural contexts; weak versus strong third-party ties within clique versus non-clique networks (box spans 25th to 75th percentile, bar within the box indicates median hostility). Hostility is higher on average in difficult relations embedded in a strong third-party tie. The third-party effect is stronger within cliques. The bars for cliques at the bottom of Figure 4 are higher than the adjacent bars for non-cliques. Hostility is significantly higher with strong third-party ties (11.1 t-test) and clique networks (3.3 t-test).

CONCLUSIONS

This has been a story in several parts which together trace a path to resolving a fundamental contradiction in contemporary understandings of organizations. I begin with the tension between the network theory of structural holes defining entrepreneurial opportunity versus network theories of cohesion defining security, and so trust, within relationships. I then discuss an alternative to cohesion that resolves the tension; a network theory of trust emergent from third-party gossip. Distrust has a strategic significance for comparing the cohesion and gossip arguments. Cohesion and gossip both predict that trust is more likely within strong relations embedded in strong third-party ties and that distrust is more likely within weak relations. The two arguments differ in their predictions about the effects of third parties on weak relations: Cohesion predicts that third parties facilitate trust. The gossip

argument predicts that third parties amplify feelings of distrust. With network data on several hundred people in electronic equipment and financial services, mostly middle and senior managers, I show an association between third parties and distrust within weak relationships. Probing further, the amplified feelings of distrust predicted by the gossip argument should be visible in the language used to explain why it was so difficult to work with the cited colleague. I use a content analysis of the explanations to show the hostility and character assassination associated with relations embedded in strong third-party ties. In sum, the evidence supports the gossip argument, and so its explanation of trust and distrust is consistent with the predicted success of entrepreneurial managers in structural hole theory.

The implication is that third parties are dangerous around difficult relationships. It is not only that they are associated with amplified negative feelings, escalating to character assassination; there are also consequences beyond the immediate relationship. First, the relationship becomes less flexible because it is associated with more extreme emotions. Having reached the conclusion that alter is to blame for the prior difficulty, ego is less likely to trust him in future (Blount, 1995; Brockner and Wiesenfeld, 1996; Brockner et al., 1997). Having blamed alter for the difficulty, things will never be the same between the two people as they were before ego took to assassinating alter's character. Further, dense third-party connections between ego and alter mean that there are multiple people engaged in assassinating alter's character. Not only will alter have difficulty working with these people in future, s/he will have difficulty building new relations with employees exposed to their third-party gossip. The hardening wall between alter and the people around ego can be expected to elicit similar emotions from alter (e.g., Kramer, 1994, on paranoia and distrust, Sitkin & Stickel, 1996, on distrust spawned by TQM zealots). For behavior amplified and unforgiven in third-party gossip, alter is under pressure to leave the firm to escape third-party tormentors.

My theoretical conclusion is that the cohesion argument is true, but incomplete, and incomplete in a way that eliminates the social capital contradiction between brokerage and cohesion. Cohesion's primary effect is rigidity, a kind of structural arthritis. It enhances trust between people already close at the same time that it amplifies distrust between people

not close (see Portes and Landolt, 1996, for diverse examples). This rigidity can be a virtue in certain environments, but in most contemporary markets and organizations it is not. The brokerage story is the more general understanding of networks as social capital. Moreover, evidence of trust and distrust shows that managers with networks rich in structural holes are more likely to make accurate judgments about who they can trust, which means that they are less likely to make consequential errors in judgment about the character of individual colleagues. Cohesion remains a consideration on the issue of network dynamics. How does the network entrepreneur bring third parties into the deal to induce the cohesion benefits of trust and reliability without falling victim to the cohesion costs of distrust and character assassination?

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Figure 1. Social capital, structural holes, and entrepreneurs.

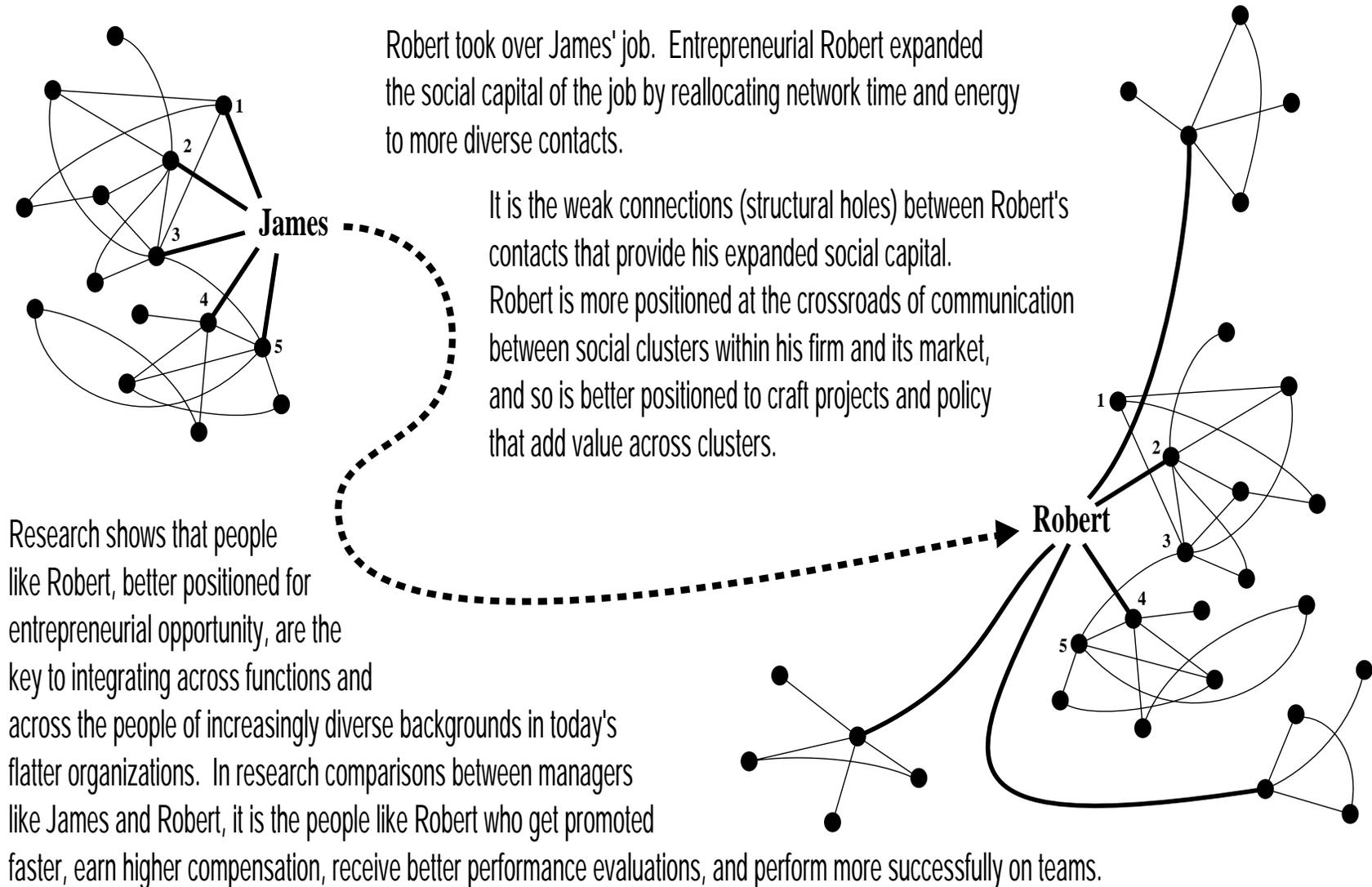
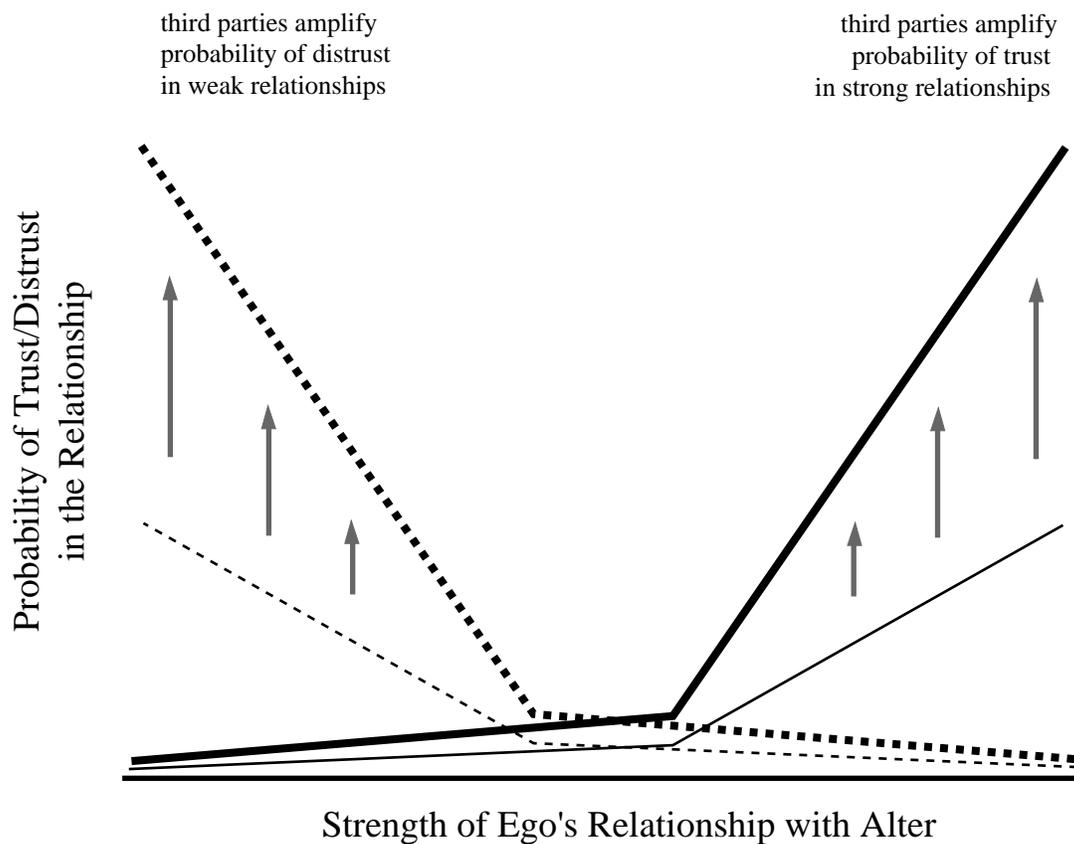


Figure 2. Amplified trust and distrust associated with third parties.



Third-party gossip amplifies relations to extremes, and anchors them at the extremes, by making ego more certain about alter. At a given strength of relationship, ego's opinion of alter is more certain when embedded in strong third-party ties. Ego more certain of alter is more likely to trust (or distrust) alter.

Figure 3.

Third parties, trust, and distrust.

White and grey bars describe relations embedded in weak and strong third-party ties. Number of relations with (strong, weak) third-party ties are reported in parentheses.

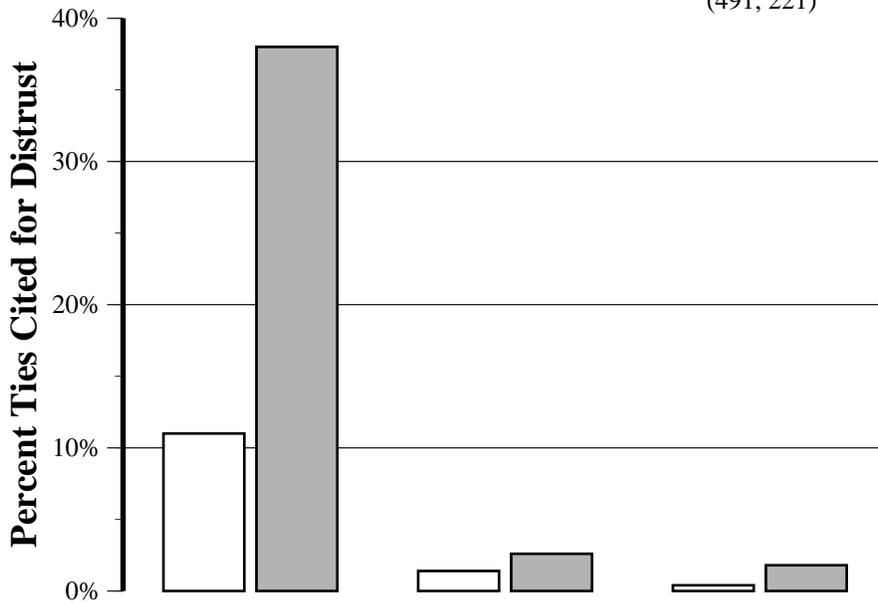
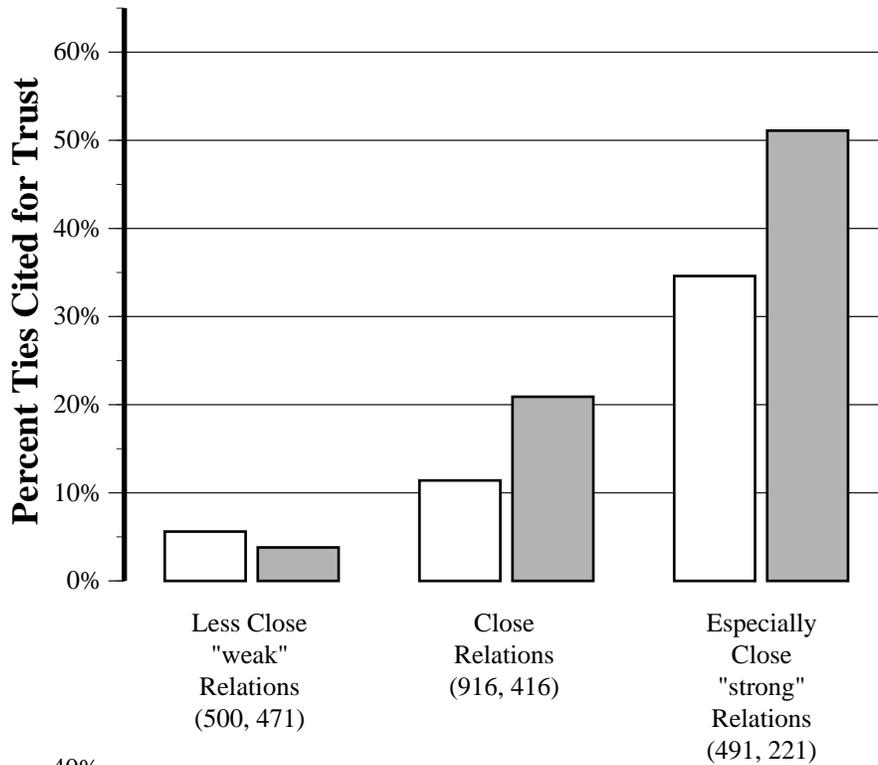


Figure 4.
Third parties, character assassination,
and hostility in difficult relationships.

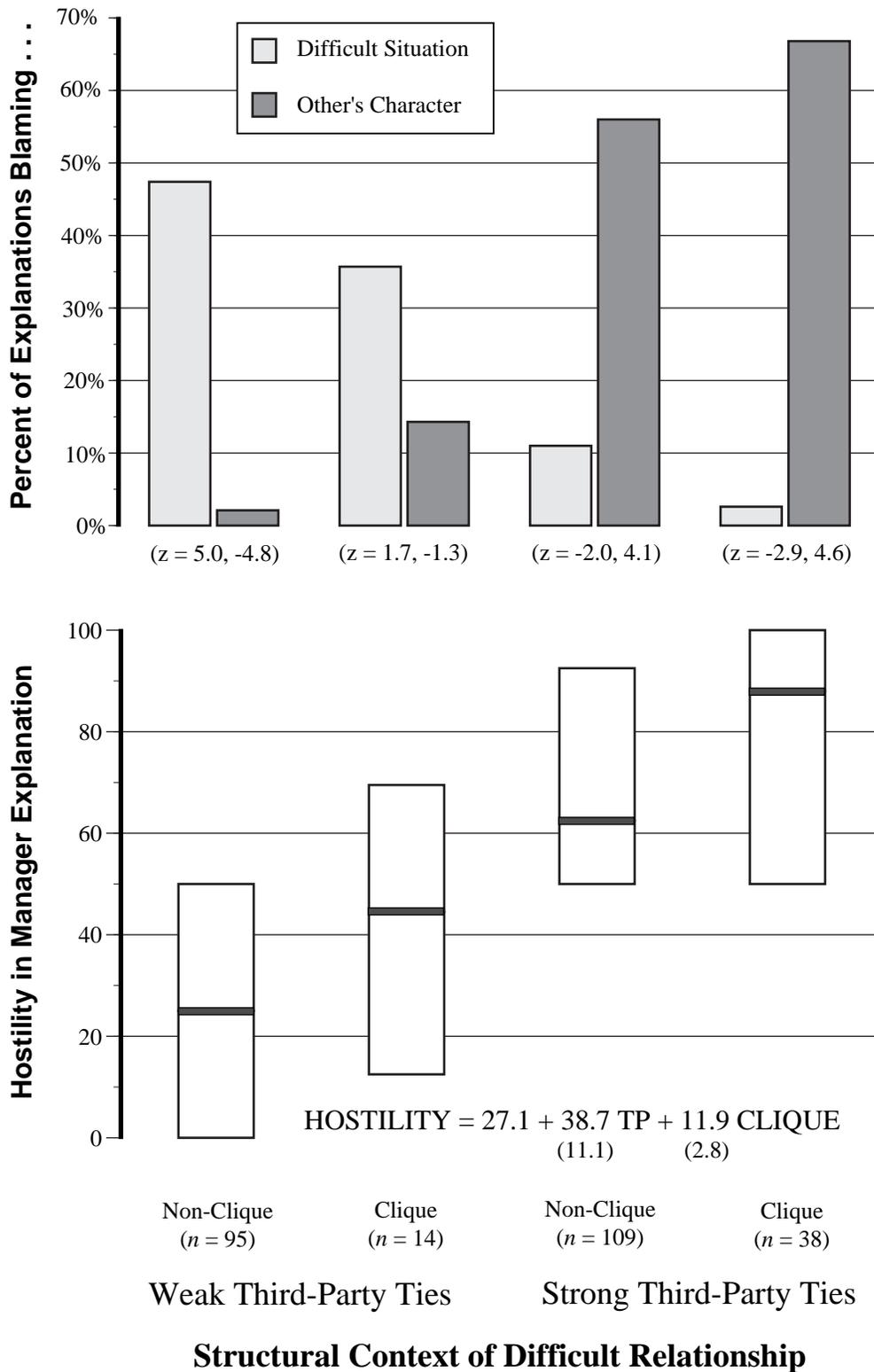


Table 1. Illustrative Explanations of Most Difficult Relationship

Situational Attributions (n = 63)

- (0) conflict of goals; what was good for him was bad for my group
- (25) different management style and motivation
- (0) I do not know; most likely a misunderstanding of my work rather than him personally
- (0) language barrier was very difficult
- (0) managed a parallel sales organization with a different philosophy
- (13) personally we got along wonderfully, but people in her organization have a difficult style
- (0) representative of an organization that has goals and objectives in opposition to mine
- (0) she is under a lot of pressure and it spills over to the people around her

Competence Attributions (n = 103)

- (13) does not understand his functional area
- (25) her planning requests do not take into account time difference between NY and Europe
- (100) incompetent; can not make a decision and stick with it
- (75) inexperienced; too emotional and immature to manage his organization
- (50) micromanagement; poor understanding of our client group's needs
- (25) mixed messages; no road map of clear direction
- (0) not able to effectively affect change in organizational direction
- (88) promoted too high, too fast; beyond her level of experience

Character Attributions (n = 90)

- (100) dishonest; self-serving; no integrity
- (100) divide and conquer person; takes credit for my work; disempowers
- (100) egotistical; self-oriented; liar; worst manager I have ever met
- (88) loses her temper and has a very unprofessional attitude with myself and external clients
- (100) manipulative - insensitive to people - dishonest
- (100) most territorial, uncooperative person I know
- (100) my boss and a charlatan
- (100) nasty, ill-tempered bitch
- (100) not trustworthy; a back-stabber
- (88) person can not accept females
- (88) shared private information with manager & peers
- (100) unethical; uncooperative; unpleasant

Note — These are examples selected from the 63, 103, and 90 explanations respectively blaming the situation, the other person's competence, or the other person's character. Numbers in parentheses to the left are hostility scores (bottom of Figure 4).