

The Role of Trust from the Aspect of Business Networks

Work-in progress paper

For the annual IMP Conference, in Budapest, 2010

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Keywords: trust, network, relationship value

Abstract

Due to consequences of increasing and global competition managers were compelled to deal with soft competencies so as to improve the firms' effectiveness. Among different management methods trust received much attention for several reasons. Trust is one base of all kinds of cooperation and network building. Originally social psychology and sociology focused on trust but this term appeared also in marketing literature from the 1980's. In spite the fact that it has become one of the hottest topics in economic papers since then, there is not widely accepted economic definition for it and several models of trust have been published in the last decades.

Basically trust can be equal with belief, expectation, will, familiarity, a certain aspect or even a process, such as belief – attitude – will – behaviour. More researchers use inverse approach by introducing the different losses that lack of trust may result in business life. Trust also has been investigated as a successful coordinating method in certain business network. The dimensions, degrees, forms, development and measurement of trust are researched not only by theoretical researchers but also by the economic actors who should cooperate in networks so smoothly as one entity.

The purpose of the paper is in one hand to show the literature of trust concerning definitions, characters and models from the aspects of organizational behaviour, relationship value and business network where the starting point is Georg Simmel's theory. On the other hand this paper serves as theoretical background and hypothetical modelling prior to an empirical research about trust in supply chains.

1 Is it worthy to investigate the notion of trust?

"Trust is good. Control is even better." said Vlagyimir Iljics Lenin. Was Lenin right? I dare to ask if he had been able to trust really in their close fellow-Communists, would have been Stalin his successor? Is there essential difference between politics and economics from the aspect of trust? These are just a few questions concerning trust.

Apart from politics trust is a basic notion in private life as well. For example Tamás Bereczkei argues that the most characteristics forms of human relationship based on trust is friendship. One of the earliest sociologist who wrote about trust was Georg Simmel and he understands that trust in secrecy is highly abstract and in need of continuous renewal. In his view trust has a high moral value which makes it quite special medium of social exchange.

Furthermore this topic appeared in economic and marketing studies in the 1980's and become a favourite topic soon (Swan, Trawick and Silva 1985; Shurr and Ozanne 1985; Dwyer, Schurr and Oh 1987; Anderson and Weitz 1989; Anderson and Narus 1990; Andaleeb 1992; Morgan and Hunt 1994; Smith and Barclay 1997; Doney and Cannon 1997; Guibert

1998). In spite of tremendous qualitative and quantitative researches there is no widely accepted general definition for trust in economics and several models illustrate trust from different aspects. However there is an author who thinks that for example collaboration has already been "overtaught, over-sold and over-published." (Delaney 2003). This paper does not wish to put an end to this debate rather comes to the conclusion that characters routines written and unwritten standards are different enough in fields of economy to be unable to create such explanation for trust which is usable for each economic sphere.

Trust is especially crucial factor in the shift from discrete market transactions to continuous exchange relationships (Dwyer, Schurr and Oh 1987). According to a study the failure rate of relationships is estimated to be over 50% (Spekman, Isabella and MacAvoy 2000). Certainly behind this failure numerous reasons can be hidden but another research is more concrete when it reports that one-third of strategic alliances failed due to lack of trust among trading partners (Sherman 1992). Another study of companies in the United Kingdom found that 55 percent of all strategic partnerships fail within three years (Moberg et al. 2003).

That's why this paper introduces the development of definition of trust starting with Simmel's view, than collects the antecedents and the results of trust altogether with the negative consequences of it as well. In the second half some models can be found proving how differently authors approach this question. Finally we create our hypothetical model about trust in which the basic aim is to improve the relationship value.

2 Development of definitions

"To believe in someone, without adding or even conceiving what it is that one believes about him, is to employ a very subtle and profound idiom. It expresses the feeling that there exists between our idea of a being and the being itself a definite connection and unity, a certain consistency in our conception of it" (Simmel 1990:179). In the very beginning of the twentieth century Simmel approaches from sociological aspect and points out that confidence is an intermediate between knowledge and ignorance about a man, which is a logical consequence of the view that complete knowledge or ignorance would eliminate the need for, or the possibility of trust. "On the other hand, even in the social forms of confidence, no matter how exactly and intellectually grounded they may appear to be, there may yet be some additional affective, even mystical, faith of man in man. Perhaps what has been characterized here, is a fundamental category of human conduct, which goes back to the metaphysical sense of our relationships" (Simmel 1950:318). Furthermore Simmel suspects that there must be something else in trust: a mysterious element that he compares with religious faith. In his theory this element is called suspension and conceptualised as mediating between reflexive, interpretative trust bases (good reasons) and the momentarily certain expectations in enacted trust.

Other sociologists argue that trust can be defined as the basis for individual risk-taking behaviour (Coleman 1990), co-operation (Gambetta 1988), reduced social complexity (Luhmann 1979), order (Misztal 1996), and social capital (Coleman 1988, Putnam 1995).

Moorman, Zaltman and Deshpandé define trust as "(...) a willingness to rely on an exchange partner in whom one has confidence"(1992:315). But trust involves not only the belief in the benevolence in the partner's actions but also the vulnerability against the partner (Morgan and Hunt 1994:23). It means that trust, whether in someone or something, can be defined as an attitude, characterised by the belief in the counterparty's reliability, for example supplier or client.

From a bit different aspect trust has been viewed as the perceived credibility and benevolence of a target of trust (Ganesan 1994; Kumar, Scheer and Steenkamp 1995). So "trust exists when a firm believes its partner is being honest and benevolent" (Kumar et al.

1995). Moody defines trust as "the fuzziest driver to partnering" (Moody, 1993:18) while trust can be as a lubricant (Arrow 1974) or as a glue (Jarillo 1988) in relationships.

McAllister (1995) however makes a distinction between affect and cognition-based trust. This reflects a rational approach to risk-taking based on 'good reasons' and 'evidence of trustworthiness' which suggests measures of reliability and dependability.

Trust can be simply defined as a willingness to take risk (Mayer et al. 1995). It seems that trust exists when one party has confidence in an exchange partner's reliability and integrity (Morgan and Hunt, 1994). Morgan and Hunt have the opinion that commitment is "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship endures indefinitely," (1994:29) and commitment is central to all of the relational exchanges between the firm and its various partners. They add that "when both commitment and trust are present, they produce outcomes that promote efficiency, productivity and effectiveness." (1994:30) Ganesan et al also confirm that "the most frequently examined consequence of trust is commitment to a relationship" (Ganesan and Hess, 1997:440).

Relationships can take place at different levels: between individuals, between firms, or between firms and individuals. After Simmel Anderson and Narus (1990) also suggest that trust of an individual differs in nature from that of an organisation. An organization that trusts their partners expects "that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm" (Anderson and Narus, 1990:45). This means that there is a necessary element of risk to both parties for this vulnerability (Giddens 1991 in sociology, Anderson and Narus 1990; Morgan and Hunt 1994 in marketing). Jeffries and Reed (2000) furthermore "...show how organisational trust and interpersonal trust interact to affect negotiators' motivation to find optimal solutions to problems of adaptation" (p.874). Their discussions focus on the execution stage of the contracting process.

Trust can be viewed as a psychological state which implies tolerance of another's freedom of action under uncertain conditions. But "trusting is seen as a dynamic capability, i.e. trusting actions are inherent in processes that organizations set in motion to integrate, reconfigure, gain and release resources. It is a 'meta'-capability due to its potential impact on other dynamic capability processes such as alliancing and decision making. Hence, whereas the twin of trust is risk, the twin of trusting is freedom of action." (Huemer, 2001:23)

3 Characters and consequences of trust

Trust can also be viewed in the wider context of the cultural boundaries. Simmel's objectification of culture includes the constitution of confidence in less and less personal knowledge about the other is required to have confidence. "The traditions and institutions, the power of public opinion and the definition of the position which inescapably stamps the individual, have become so solid and reliable that one has to know only certain external facts about the other person in order to have the confidence required for the common action." (Simmel 1950:319)

Social exchange theory argues that trusting behaviour between partners leads to mutual trust (Blau 1964). Similarly to Simmel Ganesan assumes that there is a symmetry in the trust relationships. Trust is perceived, then, as a dyadic phenomenon that is characterised by reciprocity, even if this symmetry is not always confirmed (Ganesan 1994). In Huemer's view the parties' mutual trusting raised business partners from earlier routines and procedures to something much less predictable. "The essence of trusting is suggested to the capability of gaining acceptance for actions that deviate from customs and conformities, thereby reducing predictability." (Huemer, 2001:24)

Besides this circumstance numerous antecedents of building trust have been identified so far:

- ◆ personal characteristics of the partner, such as honesty, sincerity, moral integrity, frankness, empathy,
- ◆ reliability and affinity with trustor (Swan and Nolan 1985; Swan, Trawick and Silva 1985; Moorman, Deshpande and Zaltman 1993; Doney and Cannon 1997);
- ◆ transaction specific investments (Ganesan 1994);
- ◆ similarity between the partners (Crosby, Evans and Cowles 1990) and shared values which the partners pursue (Morgan and Hunt 1994);
- ◆ goal congruence (Anderson and Weitz 1989); reputation (Anderson and Weitz 1989; Ganesan 1994; Doney and Cannon 1997);
- ◆ partners' organizational structure and culture and
- ◆ characteristics of the transaction object, in particular its degree of complexity and difficulty of expressing certain evaluations of its qualitative level (Moorman, Deshpande and Zaltman 1993).

The fields of business to business marketing that have particularly encouraged the research on trust are sales management (in the industry and service sector) and channel management, where the attempt is to understand how trust develops between sellers (of supplier firm) and buyers. The supplier will obviously trust the partner and invest in the relationship when he can gain benefits of his own out of the relationship. An awareness of the relationship functions will help both partners to clearly define their requirements and develop strategies to create trust and mutual value creation in the relationship. Therefore consequences of trust can be the following: (See Table 1)

Table 1: Consequences of trust in business

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| commitment | Moorman, Zaltman and Deshpande 1992; Morgan and Hunt 1994; Ganesan 1994; Geyskens et al. 1996; Nielson 1998 |
| reduction the level of conflict | Anderson and Narus 1990; Morgan and Hunt 1994 |
| non-coercive power | Morgan and Hunt 1994 |
| greater probability of allocating resources | Anderson, Lodish and Weitz 1987; Nielson 1998 |
| reduction of transactions costs | Zaheer and Venkatraman 1995; Cummings and Bromiley 1996 |
| redefinition of roles of business partners | Huemer 2004 |
| greater ease in persuading or influencing the partner | Swan and Nolan 1985; Swan, Trawick and Silva 1985 |
| greater sales and performance | Crosby, Evans and Cowles 1990; Dion, Easterling and Miller 1995; Dahlstrom and Nygaard 1995; Kumar 1996; Doney and Cannon 1997 |
| facilitation of collaborative behaviour and continuity of the relationship | Anderson and Weitz 1989; Crosby, Evans and Cowles 1990; Ganesan 1994; Mohr and Speckman 1994; Kumar 1996 |

The biggest problem to success of strategic alliance formation is the lack of trust (Sherman 1992), and subsequently trust is perceived as a cornerstone of the strategic partnership (Spekman 1988). A lack of trust among trading partners is increasing the transaction costs to an unacceptably high level. Creating value-added activities with such partners becomes almost impossible and the supply chain tools used to improve efficiency, effectiveness and productivity (such as vendor-managed inventory, cross-docking, and collaborative forecasting, planning and replenishment) eventually become ineffective.

Measurement of trust by means of processes and methodologies that satisfy the basic requirements of validity and reliability is still more problematic (Churchill 1979). In marketing researches (Churchill, 1979), the operationalization variables of trust have been measured mainly through multi-item scale (metric scale). Selnes (1998) however measures trust by a single item as it is a unidimensional construct that is directly accessible to respondents. But Churchill suggests that the multi-item scales allow to capture the meaning of the construct on the whole, to take account the subjects' variability and to reduce random errors, thus increasing the scale reliability (Churchill, 1979).

Lousie Young who has investigated trust for many years, has an opinion that "research in trust has reached something to a dead end" (Denize and Young 2006:2). The problems of identifying the determinants of trust are connected to the effects that it produces in a retroactive way, on the determinants themselves. In measurement of trust such variables like communication, exchange of information and reputation are frequently used, however trust sometimes appears as a substitute of information. Raimondo argues that communication can be antecedent of trust only when the phenomenon is seen from a static viewpoint (Raimondo 2000). Communication is considered as a consequence of trust by some researchers (Dwyer, Schurr and Oh 1987; Morh and Nevin 1990) but others see communication as a determinant of trust (Anderson, Lodish and Weitz 1987; Morgan and Hunt 1994; Selnes 1998). In dynamic terms it is required to hypothesize a circular and recurrent relationship between communication and trust (Anderson and Weitz 1989; Anderson and Narus 1990).

Usually trust is a process that develops over time, although have not explicitly considered the temporal element (Morgan and Hunt 1994; Smith and Barclay 1997; Walter, Hölzle and Ritter, 2002), or have evaluated time through a synthetically variable (stock) such as the length of the relationship, or past experience (Swan and Nolan 1985; Anderson and Weitz 1989; Ganesan 1994; Doney and Cannon 1997). This process can be accelerated by joint training and role playing of the partners as well as fostering organizational similarities, particularly in terms of goals, exchange behaviours, control procedures, and strategic horizons (Smith and Barclay 1997).

4 Models of trust

The combination of the three elements (expectation, interpretation and suspension) can be regarded as the Simmelian model of trust (1950:347-8). The first is expectation: the state reached at the end of the trust process and which can be either favourable (in the case of trust) or unfavourable (distrust). Secondly, interpretation captures the idea that human experiencing of the life-world gives bases for trust ('good reasons'). Thirdly, the mental leap of trust (from interpretation to expectation) needs to be enabled by suspension: the bracketing of the unknowable which represents a defining aspect of the nature of trust.

Andaleeb finds that trust would depend on the perceptions, motivations (or intentions) too and the formation of trust can be adequately explained only by taking into account another dimension: exchange partner ability, or rather the perception of that competence (Andaleeb 1992). His model represents paired approach and investigates how partners perceive each

others. Based on this research he identifies the different levels of trust that can be found in market relationships: bonding trust, hopeful trust, unstable trust and distrust.

Besides Andaleeb maybe Ganesan's model (1994) is the most frequently cited model concerning trust, Ganesan proposes two dimensions of trust, which are very similar to those identified by Andaleeb (1992): a) *credibility*, which depends on the buyer's belief that the supplier has the required expertise to carry out his role effectively and reliability; b) *benevolence*, based on the buyer's belief that the supplier acts on the basis of intentions that are beneficial to the buyer himself.

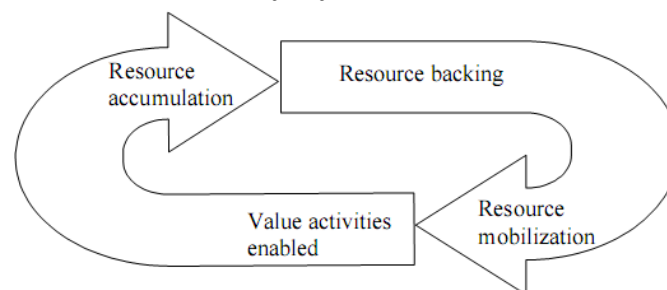
Mayer, Davis and Schoorman (1995) argue that perceived trustworthiness and trusting behaviour are, respectively, a determinant and a consequence of trust and that these two concepts are distinct from trust concept itself. According the authors, there are three factors that lead a subject to consider a partner trustworthy (that is the three components of trustworthiness) are:

- a) ability, which relates to the partner's competence to supply what the trustor expects;
- b) integrity, which relates to the fact that the partner is guided by principles acceptable to the trustor;
- c) benevolence, which shows to the intention of the trustee to do his best for the trustor.

"Trust exists when a firm believes its partner is being honest and benevolent" (Kumar et al. 1995). In their study, Kumar et al tried to measure of trust a system of a total of 10 items. Five items assessed the extent to which the partner is honest, truthful and reliable; another five items encapsulated the respondent firm's belief that the partner considers the firm's interests or welfare.

The above mentioned four models (Andaleeb, Ganesan, Mayer et al, and Kumar et al) focus on the basic determinants of trust where perception played crucial role. In case of proper perception trustworthiness and benevolence are found in the business partner, which leads to trust and commitment to that concrete relationship. These factors are close to Simmel's early theory in which expectation interpretation are two of the three building elements (expectation, interpretation and suspension).

Figure 1: **Resource-Activity Dynamics model (RAD)** (Huemer, 2001:10)



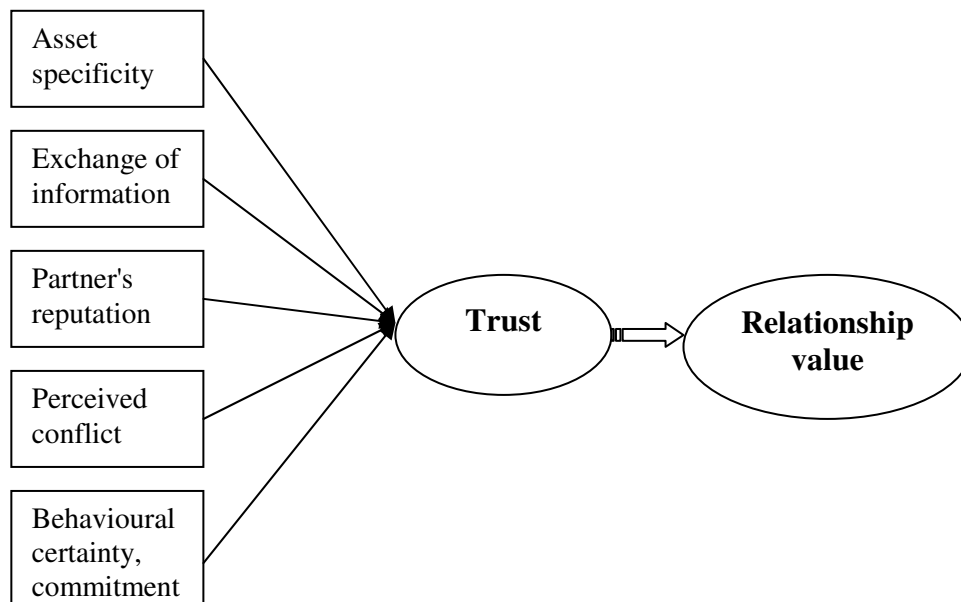
Huemers' Resource-Activity Dynamics model (RAD) (2001) steps further and focuses on resources therefore he tries to integrate trust in practice and seeks more direct benefits of trust in business relationship (see Figure 1). In his theory the aim is to fulfil the firm's strategy the participants need sufficient resource so in the first cycle buyer and seller realize, learn the referring routines and procedures meanwhile they are also building trust. In this period for both of them the main goal is to understand and follow the written and unwritten rules. In the second cycle involving business partners mobilize their recently developed trust and by trusting they are able "to redefine their roles and relationships" and this positively and measurably improve their performance and can indicate a continuous, long-term relationship. (Huemer, 2001:10)

Table 2: Applied variables of trust

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| Asset specificity | Kumar et al. 1995; Ganesan 1994; Kwon and Suh 2004; Gelei 2008 |
| Exchange of information | Kwon and Suh 2004; Young 2006 |
| Partner's reputation | Anderson and Weitz 1989; Ganesan 1994; Doney and Cannon 1997; Kwon and Suh 2004 |
| Perceived conflict | Kumar et al. 1995; Kwon and Suh 2004 |
| Trust (Behavioural certainty, commitment) | Barney and Hansen 1994; Kumar et al. 1995; Kwon and Suh 2004; Das and Teng 2004; |

In our theoretical model we use the following variables: asset specificity, exchange of information, reputation, replaceability of partner, partner's reputation, perceived conflict and trust (behavioural certainty, commitment) based on Seock-Jin Hong's and Ik-Whan G. Kwon's theory (2007). (See Table 2) The main focus in their view is future-oriented partnership, i.e., sustainable relationship and sustainable management. We agree that these factors contribute to sustainable relationship meanwhile we suppose they help to estimate the value of their relationships with business partners.

Figure 2: Hypothetical model about trust in supply chains
based on Seock-Jin Hong's and Ik-Whan G. Kwon's theory (2007)



Ulaga and Eggert (2005) identify the relationship value benefits in product, service, know-how exchange, time to market reduction and social relationships. Walter et al. (2001) come to the conclusion that relationship value has direct and indirect functions. Direct functions include the volume function, the profit function and the safeguard function, which are independent from the other relationships. The indirect functions capture the effects

connected to the future and to the other relationships in the network. Anderson and Narus (2004) distinguish the meaning of value with reference to the way in which it is produced, transferred, consumed and at the same time, perceived by customers. Mandják and Simon (2007) introduce three levels of value such as exchange episode, relationship and network levels. In case of value types they investigate economic value (utility) and social value (motivation) in their model. In this paper we emphasize from their theory the social values at relationship and network level. So social values at relationships level are: a) “smoothness of relationships (routines)”, b) “security of the relationship”, and c) “competence of supplier”. While social values at network level include a) “emanation of the relationship”, b) “the supplier/ seller’s position in his own industry”, c) “non-market strategy of the supplier/ seller” (Mandják et al 2007:5). We think that development of trust is able to improve these social values both in relationships and supply chains.

After the review of trust, determinants of trust and relationship value we create a hypothetic model prior to empirical research (see Figure 2). With reference to our literature review about variables of trust we think that these factors can improve trust and through developed trust indirectly and positively affect the relationship value in Hungarian business practice as well.

5 Summary and conclusions

As the Simmelian notion of trust identified and developed captures the nature of trust in a way that is more imaginative, comprehensive and rigorous than current researches. This theory includes even highly abstract insights while it tries to focus on the totality of life’s meaning in details.

Concerning marketing literature several controversies can be found and these can lead to the different meaning recognized to trust construct and consequently, to the distinction between determinants and consequences. More authors have defined trust with elements that others, instead, have considered as its determinants.

When the relationship develops, a high trust stock can affect the quality and quantity of communication between parties, and consequently the understanding of customer expectations, and the correct formation of expected performance that the firm can offer. Afterwards, in a dynamic prospective, trust affects satisfaction, by means of communication variable.

Supplier relationships have tremendous potential to expand from pure product purchasing and short-term oriented transactions to long-term, trustworthy, and valuable relationships. There are international studies (Walter, Hölzle and Ritter, 2002; Kwon and Suh, 2004) about trust which showed similarities with our theoretical model. Furthermore it may indicate that culture does not affect trust directly but economic dimensions and logic have stronger influence.

It seems that understanding of trust has already reached its half way when numerous theories live together and hopefully somehow a clear picture will develop, which does not necessary mean only one definition with one model.

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