Theory Digest: Trust Theory

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Trust Theory

Trust is the foundation of social interactions, business relationships, political endeavors; indeed trust underpins our very human existence. Why people trust has been studied by psychologists, anthropologists, sociologists, political scientists, and behaviorists (Lewicki, McAllister & Bies, 1998, p. 438). Trust and activities related to the cultivation of trust have been deemed to be worthy endeavors for organizations, particularly those working multinationally, or across political or cultural boundaries (Ismail, Alam, & Hamid, 2017; Lewicki, & Stevenson, 1997). Few people, and indeed organizations, would ever enter into business agreements without trust that the other party would uphold their portion of the agreement. Laws have been created to enable organizations to conduct business with some level of protection, but when forging deals across political boundaries, laws can become quite confusing and may provide protection for one party and not the other. For this very reason, trust has emerged as the single most important aspect of organizational relationships in the global environment (Ismail, Alam, & Hamid, 2017).

This Theory Digest paper will examine the role trust plays in the global organizational environment. The ideas of seminal authors in the field of trust will be explored followed by discussion of the current thinking regarding trust and the global environment. Finally, ideas for further research will be examined with an eye towards how social media may impact trust theory in the future.

The Studies

Research for this theory digest paper was identified by applying the following search strategy: the search was initiated by entering (Trust Theory) as a subject term, to identify seminal

authors. After analyzing these results, it was concluded that Roy Lewicki and Cristiano Castelfranchi were leaders in the area of organizational trust. Next, the following search string was used to capture the breadth of the field: (trust theory) + (global environment) which yielded 238 articles. Limiting these articles to only scholarly peer reviewed, reduced the field to 144 articles. This list was manually searched for a study that closely matched the research goals of this paper: trust in the global environment. This search yielded the article: "*The Role of Trust and Deception in Virtual Societies*" (Castelfranchi & Tan, 2002). Using a backwards snowball technique, the reference list of this article was carefully analyzed for other articles that closely relate to trust in the global environment. Each subsequent article's reference list was again mined to locate related articles. The resulting list of 20 research articles was culled to extract the final six studies used to examine the role that trust plays in the global organizational environment.

Article Summaries (Alphabetical by primary author's last name)

The Role of Trust and Deception in Virtual Societies

Castelfranchi and Tan (2002) explore how trust impacts the interactions of human and computerized agents through electronic commerce. The authors posit that electronic commerce can only succeed if the general population trusts the interactions and transactions they make through electronic agents. Agents in this case being defined as acting "on behalf of" (p. 62). Furthermore, the authors cite the lack of trust between humans and electronic agents as the primary barrier to increased electronic commerce (p. 55).

Building trust has been the primary focus of organizations expanding into electronic commerce. This has meant that organizations have had to focus resources on creating secure and reliable channels of communication (p. 56). Virtual communities, whether online or through

machines like automatic teller machines, require even greater levels of trust than simple human to human interactions (p. 67).

This article written in 2002 may seem a bit outdated since electronic commerce has come so far since it was written, but the article points out how trust is the foundation of virtual transactions. As deception continues to proliferate the virtual world, the fundamental truth of trust will continue to be an issue for electronic commerce.

Cristiano Castelfranchi, a cognitive scientist, along with his frequent collaborator Rino Falcone, has been involved in the research of trust as it relates to behavior and attitudes for decades. Their work on trust and the socio-cognitive dynamics of trust have been cited by thousands of researchers attempting to understand the role trust plays in organizational decisions (Institute of Cognitive Sciences, 2017).

Castelfranchi, C., & Tan, Y. (2002). The Role of Trust and Deception in Virtual Societies.

International Journal Of Electronic Commerce, 6(3), 55.

Trust and relational capital

Falcone and Castelfranchi (2011) seek to untangle the concepts of individual trust capital, relational capital, and collective trust capital in order to define trust capital and how it is managed (p. 402). The authors explore the relationships between trustors (those that would place their trust in the other) and trustees (those that would be trusted). They note that the purpose of the trustor is to find a trustee as a collaborative partner. The trustworthiness of the trustee is seen as trust capital (p. 426).

The authors note that while these relationships are extremely complicated and should be further analyzed, the accumulation of trust is a worthy motive for an agent to acquire. They also

note that such a commodity is so valuable that the temptation to decrease the trust capital of rivals exists, even though the perception of engaging in such activities could damage the agent's own trust capital.

Falcone, R., & Castelfranchi, C. (2011). Trust and relational capital. *Computational & Mathematical Organization Theory*, *17*(4), 402-418. doi:10.1007/s10588-011-9095-5

Trust, Commitment, and Competitive Advantage in Export Performance of SMEs

This study is an important addition to this list of research for two important reasons. First, the study was conducted very recently so it provides new insights into trust theory. Secondly, the study discusses the recent trend of small and medium sized enterprises (SMEs) entering into the global marketplace. By sampling 228 SME manufacturing firms in Malaysia, the authors surveyed executive level managers. The study found that trust and commitment were highly correlated to export success. In other words, firms that took the time to establish trust and commitment within cross-border interfirm relationships fared considerably better with regards to the export market than their counterparts who did not develop the same level of trust and commitment (p. 13). The authors also concluded that SMEs competing in emerging markets should prioritize these types of relationships if they are to be successful in the export industry (p. 14).

Ismail, D., Alam, S. S., & Hamid, R. A. (2017). Trust, Commitment, and Competitive Advantage in Export Performance of SMEs. *Gadjah Mada International Journal Of Business, 19*(1), 1-18.

Trust and Distrust: New relationships and realities

Trust and distrust proliferate the world of relationships simultaneously (Lewicki, McAllister, & Bies, 1998, p. 454). This is evident in the simplest of transactions at a local bank, where customers are welcomed, but must remain outside of a thick glass partition. The authors argue that trust and distrust are always present and that although parties may seek consistency and balance, the more common state of transactions, individual, social, and organizational, is "imbalance, inconsistency and 'uncertainty'" (p. 444).

The authors explain how although trust and distrust are reciprocal, they are not opposites (p. 448). Low distrust is not the same as high trust. This is why both trust and distrust can be present simultaneously within a relationship. Distrust, or the perception that one might cause harm, enables individuals to take precautionary or protective measure, thereby remaining safe (p. 444). To further clarify this distinction, the authors note the difference of low trust situations and high distrust situations. In high distrust situations individuals might expect harm, whereas in low trust situations, beneficial outcomes are simply not expected.

The capacity to cope with the simultaneous existence of trust and distrust, as well as possible ambivalence, is a critical component for successful organizational management.

Lewicki, R. J., McAllister, D. J., & Bies, R. J. (1998). Trust and Distrust: New relationships and realities. *Academy Of Management Review, 23(3),* 438-458.

Trust development in negotiation: Proposed actions and a research agenda

Lewicki and Stevenson (1997) explore the power of trust during negotiations. Negotiations are complex decision making interactions between parties with differing inclinations. Trust during negotiations is further discussed in terms of whether or not trust must

exist prior to a negotiation, or if trust is a result of positive successful negotiations. The authors determine that trust is both "antecedent and consequence" (p. 103).

The authors propose a three-stage development model of trust, where rudimentary trust, or calculus-based trust resides at the bottom of a trust pyramid. Calculus-based trust is defined as the belief that an individual will behave as expected to avoid consequences. Knowledge-base trust, the next level up, is trust based on knowing the other party. This level of trust takes time to build and requires understanding the other party's intentions. Finally, identification-based trust exists when one party is so trusted that they might act "for the other in a manner even more zealous than the other might [for him/herself]" (p. 107). This is the highest level of trust.

Building on the three levels of trust can enable managers to more effectively and confidently engage in negotiation.

Roy Lewicki, a seminal author in the field of trust theory, has studied trust in individual relationships, social relationships, and organizational relationships. The Three Component Model of trust, he developed with coauthor Maura Stevenson, describes how trust grows along a continuum (Lewicki & Stevenson, 1997). The base level of trust starts with agents acting in fear of consequences. At this level, trust is rather precarious as it is based on fear. Over time, trust grows to include knowledge of the counterpart. At this level trust is based on understanding one another (p. 105), a deeper level of trust. Finally, trust grows to the point where one constituent knows the other so well, and is trusted by the other so strongly that the constituent is able to act on the other's behalf. This is the highest level of trust.

Lewicki's three-component model of trust has been tested and proven to be an effective model for helping managers navigate the intricate nuances of negotiation.

Lewicki, R. J., & Stevenson, M. A. (1997). Trust development in negotiation: Proposed actions

and a research agenda. *Business & Professional Ethics Journal, 16(1-3),* 99.

Trust in Developing Relationships: From theory to measurement

McAllister, Lewicki, and Chaturvedi (2006) test the claims of Lewicki's three

components of interpersonal trust through three empirical studies. The first study measured the

dimensions of trust by asking undergraduate psychology students to rate their level of trust with

different individuals. This study found that when individuals felt distrust towards another

individual due to specific circumstance, all three components of trust were low.

The second study built on the first study by examining trust within workplace

relationships. This study found further evidence that the three component model "provided a

substantially better fit than the single factor model" (p. 4).

The final study built on the previous two studies by collecting data from 629

undergraduate students. The students were surveyed on teamwork experiences. This study also

found strong support for the three component model.

This study provides the empirical evidence in support of Lewicki's three component

model of trust.

McAllister, D. J., Lewicki, R. J., & Chaturvedi, S. (2006). Trust in Developing Relationships:

From theory to measurement. *Academy Of Management Annual Meeting Proceedings,

G1.* doi:10.5465/AMBPP.2006.22897235

Conceptual Model

Figure 1. Trust theory conceptual model
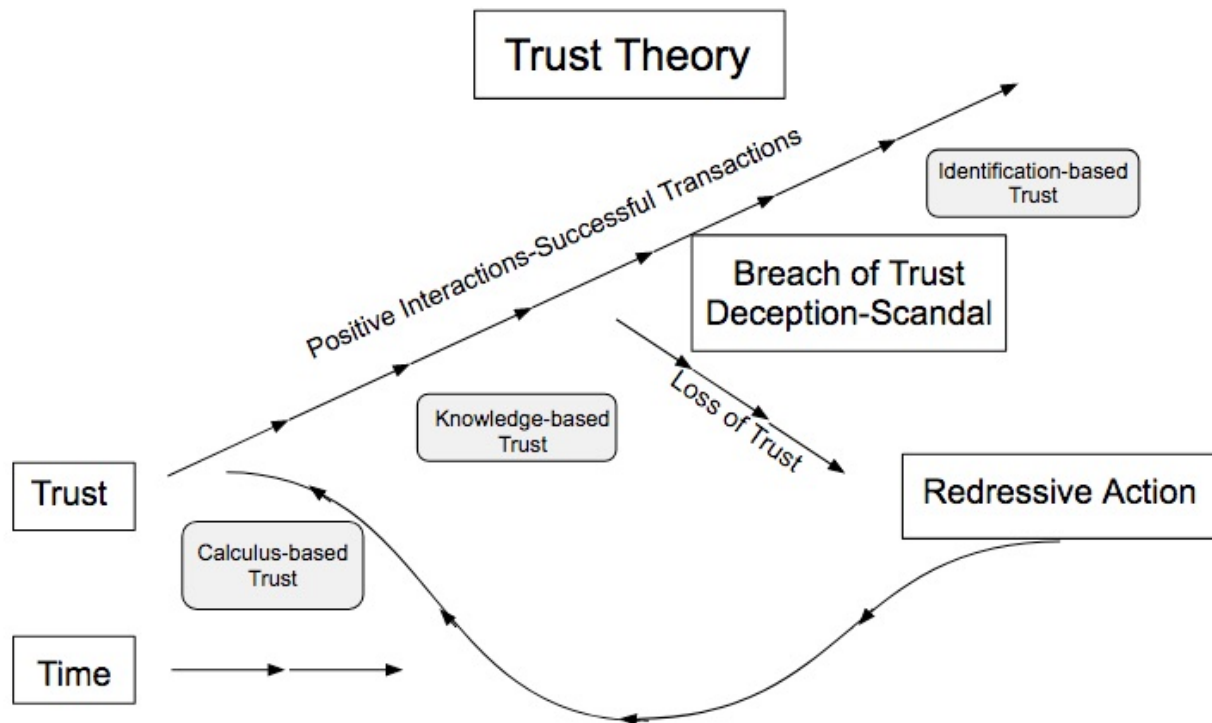
Concept Narrative

Trust is built over time through positive interactions and successful mutual transactions. The more time and the more positive the interactions the more trust is built. If a breach of trust, in the form of deception or some kind of ethical scandal occurs, trust immediately declines. Trust will continue to decline unless some sort of redressive action is taken. Redressive actions consist of punitive measures, remuneration, reparations, policy changes, or any actions designed to right whatever wrong has occurred. Once redressive actions have occurred, trust must be rebuilt from the beginning. In some instances multiple rounds of redressive actions must occur

in order for trust to fully grow. In some extreme cases, redressive actions are not sufficient and trust never returns. In these cases, organizations fail.

Calculus-based trust, or the most basic level of trust, represents the earliest and most rudimentary trust. This level of trust forms on the concept that individuals or organizational agents will behave in an expected manner for fear of punishment. This level of trust is also grounded in the rewards associated with honoring trust. This is a very concrete level of trust and does not extend to situations beyond what is specifically stated (Lewicki, & Stevenson, 1997, p. 104).

Knowledge-based trust, which also builds over time, is grounded in knowing the other party. This level of trust is complex and requires time and commitment to achieve. This higher level of trust is such that parties can anticipate how the other party will behave and react (Lewicki, & Stevenson, 1997, p. 105).

Identification-based trust is the highest level of trust, and most difficult to achieve. This level of trust is only developed when parties have had no instances of deception or breach of trust, and fully understand the other parties' goals and perspectives. When parties have attained this level of trust one party can act on the other's behalf even when the party is not present (Lewicki, & Stevenson, 1997, p. 106).

Conclusion

Organizations build reputations, and therefore business, on trust. Stakeholders must first trust that an organization is legitimate and will act in the best interests of all constituencies before they will engage in trade with the organization. Levels of trust deepen over time and through mutually beneficial transactions. When an organization breaches the trust it has garnered

with its stakeholders, it can be very difficult and take a very long time to regain that trust. Organizations that have lost the trust of their stakeholders must do everything within their power to rebuild that trust, or the organization may ultimately fail.

Globalization has enabled corporations to conduct business in growing markets around the world. The Internet and social media have enabled organizations to reach populations through multi-faceted marketing campaigns that may not have been accessible previously. Social media has also enabled populations that may have been taken advantage of previously, through low wages and difficult working conditions, to be heard by stakeholders around the world. How social media will impact organizational trust in the global environment is an area for further research; particularly in light of new trends in stakeholders' desire to be associated with socially responsible organizations.

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