TRUST

The existence of trust in a
relationship is probably the single
most important ingredient to
making that relationship
successful.

Yet what is trust, how is it created and where lies its
real value? This is the subject of this Review Paper.

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- Why is trust so important
- What exactly is trust and how can it be created
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TRUST – A Review

This review paper tries to give an overview of trust, a fundamental ingredient of any successful relationship whether it is between individuals, groups, organisations or in society as a whole. Although this review tends to focus more on the worlds of work, business and society, the principles behind the ideas presented on trust can be applied to any kind of relationship in any area of life.
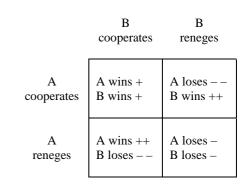
1)	WHY IS TRUST SO IMPORTANT?

David Hume, the 18th century philosopher, captures the essential dilemma surrounding trust:

Your corn is ripe today; mine will be so tomorrow. 'Tis profitable for us both, that I should labour with you today, and that you should aid me tomorrow. I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains upon your account; and should I labour with you upon my own account, in expectation of a return, I know I should be disappointed, and that I should in vain depend upon your gratitude. Here then I leave you to labour alone; you treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security[1].

The problem is that even if two parties believe that it is in their best interest to cooperate, they can have no guarantee that the other party will not renege on any agreement to the advantage of one and to the loss of the other. It is not only necessary for you to trust the other party but also to believe that you are trusted by the other party if any cooperation is going to work.

Game theory (for example 'the prisoner's dilemma') seems to confirm the outcome described by Hume. Unless the parties have complete trust in each other that each will cooperate (ie: you will both help to cut each other's corn each year), then the best strategy for both of them is to renege on any deal. If you renege, you could scoop the best possible outcome, a 'win', if the other party has decided to cooperate - your corn is cut with your neighbour's help, but you do not help him with his. Even if your neighbour doesn't cooperate, by reneging, you avoid the worst outcome which might have happened if you had decided to cooperate but your neighbour had reneged – you helped him with his corn but he doesn't help you.

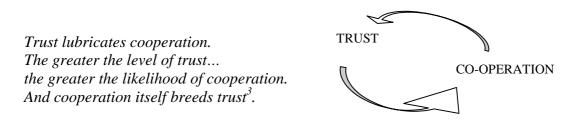|	B cooperates	B reneges
A cooperates	A wins + B wins +	A loses – – B wins ++
A reneges	A wins ++ B loses – –	A loses – B loses –

So without a very high level of mutually reciprocated trust, does cooperation go out of the window? Is this a model for the way we should conduct our lives, the way we do business? Will we always end up with outcomes that nobody wants – unharvested

corn (in Hume's example) or, in a topical case, the endless deadlocked negotiations we have seen in the peace process in Northern Ireland. Here Sinn Fein did not trust the Unionists to share power and the Unionists did not trust Sinn Fein's ability to bring about the decommissioning of the IRA's weapons. The result has been a lengthy stalemate.

Fortunately, what we have described above is not the whole story. In Northern Ireland, the Unionists eventually made a leap of trust (albeit hedged) in agreeing to share power before the start of decommissioning in order to help break the deadlock. This was not least because there was a huge amount of pressure on both parties to achieve a co-operative solution. At the end of the day, the two communities have to live with each other.

Most situations in real life (whether in Northern Ireland, business or with your neighbour) are not one-off 'win-lose' situations where you can just walk away afterwards. It only makes sense to 'beat' the other party if you are never going to have contact with them again. Axelrod[2] has shown that in a continuing relationship (ie: a large number of repeated interactions in the game of prisoner's dilemma), the best strategy is actually cooperation and not reneging. In the case of Northern Ireland the two opposing parties cannot walk away from each other since they have to co-exist in the same country and therefore their best strategy, however difficult, is to try and come to some form of cooperation. The alternative, as we have seen for the last 30 years, has been war.

To achieve that cooperation, a degree of trust is, therefore, an essential ingredient. Before we decide to 'cooperate' we ask ourselves questions about trust: "If I tell my boss about this idea, will he end up taking all the credit? If I share this information with my supplier to help him give me a better product, is he likely to pass it on to my competitor? If I allow my neighbour to borrow my car to do the shopping for both of us, will he look after it properly?"

Trust lubricates cooperation.
The greater the level of trust...
the greater the likelihood of cooperation.
And cooperation itself breeds trust[3].

TRUST

CO-OPERATION

Lack of trust is one of the reasons why progress in the Northern Ireland peace process has been so difficult and protracted. As this article goes to press, the peace process is once again in jeopardy as there has been no movement from the IRA on decommissioning. Martin McGuinness of Sinn Fein said on 30th January 2000 that the IRA was not about to decommission:

Because they don't trust the British, because they don't trust the Unionists, because they don't trust those that they have been engaged in conflict with for the last thirty years[4].

Hopefully, the peace process will continue to move forward and as the parties begin the process of cooperating with one another – the sharing of power, this in itself will help to instil the confidence to help them to start to trust each other.

2)   WHAT IS TRUST AND HOW CAN IT BE CREATED?

Here are two, out of the many possible, definitions of trust:

Trust is the intuitive confidence and sense of comfort that comes from the belief that we can rely on a person or organisation without thinking about them[5].

You do not trust a person (or an agency) to do something merely because he says he will do it. You trust him only because, knowing what you do of his disposition, his available options and their consequences, his ability and so forth you expect that he will choose to do it[6].

This confidence or trust in a person or organisation, therefore, is in your expectation of that person or organisation meeting their obligations and not deceiving you. It comes out of what you know or have experienced of them so far.

There is often also an important element of reciprocity in trust. In relationships which involve any significant personal interaction, if I am trusted by others, I am more likely to trust them. Conversely, if I cooperate because I trust you to reciprocate but then you don't, I am far less likely to cooperate when we next meet. In fact:

Trust is extremely fragile.....while it takes time and consistent action to be perceived as trustworthy, a single violation of trust can introduce a doubt which is difficult to overcome and negate[7].

Trust is also something which we need to continue to practise in a relationship if we are not to gradually lose it. People or organisations can change their behaviour over time. We realise that and tend to re-evaluate our trust accordingly and automatically depending on how recent are our experiences of the other party.

Trust is, therefore, like a renewable resource which atrophies with disuse and multiplies with use[8].

Stephen Covey describes the amount of trust that has been built up in a relationship as an 'Emotional Bank Account'[9]. If you make deposits into the 'EBA' through keeping commitments, being honest, respectful and kind, you build up a reserve of trust and can draw on that account. If you are autocratic, threatening, disrespectful, overreact, become arbitrary, ignore the other person or betray their trust, then the EBA eventually becomes overdrawn. At point, you have to be careful of everything you say, very little cooperation exists and the relationship is filled with tension. A good relationship needs continuing deposits of trust into the EBA.

Characteristics of trust

Before we consider what actually creates trust, let us summarise some of the characteristics of trust. Those shown below have been adapted from Argandona's framework for characterising trust in business alliances [10] :

- Interpersonal – between actual individuals
- Situational, rather than global – trust is placed in a particular person or group of people
- Voluntary and free – trust should spring from choice and cannot be controlled
- Committed – each party depends on the other
- Conscious – each party is aware of the other's trust
- Uncertain and vulnerable – the alliance may not work out because of problems such as questionable reliability or a breach of trust
- Relevant – any breach of trust by one party cannot be considered insignificant by the other
- Dynamic – the degree of trust can change over time
- Action orientated – because any business alliance seeks to achieve practical goals
- Communication based
- Experimental – based on experience

Types of Trust

Trust can be looked at in different ways. In a business, either in work or as a consumer (which applies to all of us). Mako identifies three types of trust[11]:

- Contractual trust Will the other party keep to what they have agreed?
- Competence trust Does the other party have the skills and experience to do what they say they will do?
- Goodwill Trust Will the other party take initiatives to promote the relationship to maximise mutual benefits and not take unfair advantages?

Another way of looking at trust is Faulkner's. He also analyses trust into three types[12]:

- Calculative trust Each party calculates that the other can help it and trusts the other in the hope that matters will work out well
- Predictive trust Each party believes that the other will behave as it says it will because it has kept its word in the past
- Friendship Each party likes each other as individuals and therefore the trust takes on a more personal aspect. If this is also present, it is likely to make the relationship more robust and flexible if problems arise

In both cases the first two factors are about whether the other party can be trusted to be capable of achieving the desired result and if so, whether it can then be trusted to keep to its word. These factors often provide the basis of trust in more formalised relationships which usually are bounded by rules of one form or another, written or unspoken. Thus you might trust a doctor to give you an accurate diagnosis and treat you to the best of his/her ability. This is based on the fact that you know s/he has had extensive training, is regulated by the General Medical Council, has a good reputation and that also operates under an ethical code (the Hippocratic oath). In return, your doctor expects you to be open and honest about your symptoms so that s/he can make

an accurate diagnosis. You might also make a similar evaluation as a consumer about whether to trust a retailer when you make an important purchase. The retailer then trusts you (or the reference from a credit agency) that you can pay for the goods or service.

However, there is an important level or type of trust beyond this which is much more dependent on the personal interaction and experience between the people in the relationship. This personal interaction will create what has been described in the categorisations above as 'goodwill' or 'friendship' trust. In the case of your doctor, you might have had to visit him/her many times previously because of your health problems. The time you will have spent together, the way you get along with him/her and how s/he has helped you in the past, all these will be additional reasons for you to put your trust in him/her. When trust is reciprocated at this level will lead to much more voluntary cooperation and a greater likelihood of time being invested or even risks being taken to the potential mutual benefit of both parties.

The next section explores those elements which help to give rise to trust at whatever level it might be.

Creating Trust

The table below summarises some different models of trust from studies which have appeared in journals recently. It is by no means exhaustive but gives an idea of the range of elements which various authors believe contribute to the building of trust in a relationship.

TABLE 1:	SOME MODELS OF TRUST IN RECENT JOURNALS					
Author/ source	**Clark & Payne**[13]	**Hart**[14]	**Cufaude**[15]	**Argandona** [16]	**Orlikoff**[17]	**Kim & Mauborgne** [18]
Area /Sector	UK service sector	Financial services	Associations	Business Alliances	Health care	Change management
TRUST BUILDING ELEMENTS	•Openness	•Effective communica-tion	•Frequency, timeliness & forthrightness of communication		•Open & honest communicati on	• Engaging people in the process •Explaining actions and why
	•Loyalty		•Honouring promises and commitments	•Loyalty (truthfulness honesty): the person does as s/he says	•Consistency in what you say and do	
	•Integrity			•Integrity: responsible, ethical & controlled behaviour	•Integrity; •Personal responsibility	
		•Not acting opportunisti-cally		•Fairness & impartiality •Good intentions		•Fair Process
		•Investing time in relationship	•Understanding other party as individuals & their roles and responsibilities		•Familiarity: knowing people through multiple contacts	
	•Ability		•Competence to get the job done	Competence		
		•Benefits of relationship are seen to be maximised				
				•Concern about other party as a person	Commitment to care about things beyond yourself	
		•Building shared values	•Clarity of shared purpose, direction & vision			•Setting clear expectation
		•Successful handling of problems			•Forgiveness & reconciliation	

As we can see from the studies in the table above, the building of trust seems to involve many aspects of a relationship. Elements of trust which feature in the table as particularly important in the way the relationship operates are around those areas of:

- Fairness
- Integrity
- Effective communication
- Commitment
- Shared purpose or values which are real and not imposed

The Relationships Foundation has developed a framework[19][20] to help categorise and analyse those factors necessary to produce effective relationships. This can also be used to give an overall assessment of the importance of trust in a relationship:

TABLE 2: RELATING TRUST ELEMENTS IN TABLE 1 TO THE RELATIONSHIPS FOUNDATION FRAMEWORK	
FRAMEWORK	**TRUST ELEMENTS IN TABLE**
Directness Quality of the communication process	Open, honest and effective communication.
Continuity Shared time over time	Frequency of communication, taking time to explain and investing time in the relationship.
Multiplexity Depth and breadth of contact	Understanding the other party and their different roles and responsibilities; familiarity through multiple contacts
Parity Participation and fairness	Fairness, impartiality, engaging people in the process, not acting opportunistically, honouring promises, doing what you say, integrity, personal responsibility, good intentions
Commonality And Diversity Common objectives and constructive diversity	Shared values, direction, purpose and vision, setting expectations, successful handling of problems, forgiveness and reconciliation

As we see in table 2, the elements needed to create trust thrown up by the studies (see table 1) are spread across all five dimensions of the Relationship Foundation's framework.

There are just two exceptions, factors which are not explicitly covered by the framework above yet appear as elements in the studies on trust. Firstly, there is concern about the other party in the relationship as a person (as opposed to their role

or function) and therefore a commitment to care about things beyond oneself. This suggests that to create trust at its best will involve a degree of altruism.

Secondly, when the relationship is a functional one where there are tasks to be achieved which involve both parties, then there must be a level of competence (knowledge, skills and/or experience) which is at a high enough level to enable you to get the job done. If a friend offers to fix the problems with your computer when you know he is barely computer literate, then you will not have much trust in him being able to do that job (see 'competence trust' in the previous section).

If we accept that the Relationships Foundation framework covers the majority of the preconditions deemed necessary for an effective relationship and that creating trust requires attention to most aspects of a relationship (table 2), then trust is not a simple factor to be treated in isolation from the other preconditions. In fact, the creation of trust appears to be bound up with those same factors or preconditions that lead to a good relationship. Perhaps we could even consider trust as the outcome of a good relationship.

Determining the level of trust in a relationship, therefore, could perhaps be the most important indicator of whether a good or effective relationship exists.

What is social trust?

So far we have looked at trust in the context of relationships between individuals or organisations. But what does trust mean in more complex settings such as in communities or in society where trust exists in a more impersonal or indirect form? Fukuyama gives us an idea of what trust in society is all about:

Trust is the expectation that arises within a community of regular, honest, and cooperative behaviour, based on commonly shared norms, on the part of the other members of that community. Those norms can be about deep "value " questions like the nature of God or justice, but they also encompass secular norms like professional standards and codes of behaviour. That is we trust a doctor not to do us deliberate injury because we expect him or her to live by the Hippocratic oath and the standards of the medical profession[21].

Creating Social Trust

Putnam believes that social trust in modern complex settings can arise from two related sources[22] –
- norms of reciprocity
- networks of civic engagement

Each individual act in a system of reciprocity is usually characterised by a combination of….short-term altruism and long-term self interest: I help you out now in the (possibly vague, uncertain and uncalculating) expectation that you will help me out in the future. Reciprocity is made up of a series of acts each of which is short-term altruistic (benefiting others at the cost of the altruist) but which typically make every participant better off[23].

In communities where reciprocity is a 'norm', opportunism (similar to reneging in the game of prisoner's dilemma) can be efficiently restrained and problems that need collective action can be sorted out. If people do not behave according to the norm, they will get shunned and tend to get excluded from the life of that community. Norms such as reciprocity, which help to create social trust, arise because they lower transaction costs (see section 4) and facilitate co-operation within that community.

As for networks of civic engagement, what Putnam means by these are neighbourhood associations, sports clubs, societies, local parties etc. The denser such networks are in a community, the greater the benefits of co-operation. How do these networks bring about these benefits? Putnam explains[24]:

- *Networks of civic engagement increase the potential costs to a defector in any individual transaction. Opportunism puts at risk the benefits he expects to receive from all the other transactions in which he is currently engaged, as well as the benefits of all future transactions. Networks of civic engagement, in the language of game theory, increase the iteration and interconnectedness of games.*

- *Networks of civic engagement foster robust norms of reciprocity. Compatriots who interact in many social contexts "are apt to develop strong norms of acceptable behaviour and to convey their mutual expectations to one another in many reinforcing encounters." These norms are reinforced by "the network of relationships that depend on the establishment of a reputation for keeping promises and accepting the norms of the local community regarding behaviour"[25].*

Social trust is therefore built up from these strong reinforcing encounters and a reputation for keeping promises and adhering to the community norms or doing what is expected of you.

3)   LACK OF TRUST – THE SIZE OF THE PROBLEM

The days of 'my word is my bond', when there were gentlemen agreements based on trust between merchant bankers in the city of London, are now long gone. Bankers, indeed all organisations from large multinationals to small charities, now use lawyers to draft contracts which try to cover every conceivable angle in any kind of formal relationship or deal. The lawyers' fees alone for these contracts might run to several millions of pounds when a big deal is involved. The argument goes that an organisation in this day and age cannot afford to do otherwise. The other party in the deal could take advantage of their trust (the same old opportunism or reneging we have already seen has an advantage in the one-off games of the prisoners dilemma) and take them to the cleaners unless everything was sown up by the lawyers. But this lack of trust can cost a lot of money, not only in legal fees, but in other ways as we shall see later in section 4.

Similar kinds of changes have even been creeping into personal relationships. Pre-nuptial agreements have now arrived on the scene to set out amongst other things the kinds of behaviour each party is expected to keep to within a marriage.

In the work place, employees no longer trust employers to look out for them in terms of career development or training needs. It is every man or woman for themselves. Employers no longer trust their employees to stay with them. There are always competitors sniffing around to tempt the better performing employees to jump ship with a more attractive benefits package and the employees often have no compunction about making such moves. Contracts are carefully drawn up to limit the damage any such employee might cause by using confidential information to the disadvantage of his/her previous employer. Certain employers now no longer trust their employees in what they are doing or how they spend their time. They covertly film their staff to ensure their honesty and to check what they are working on. They monitor their use of the internet and telephone and even, in some cases, strictly regulate the use of the toilet in case staff abuse this 'privilege'.

All these precautions come with a cost both in financial and in relationship terms. The cause is mostly down to lack of trust. That is not to say that we can or should return to those mythical halcyon days of 'my word is my bond'. However, it is important to recognise the path we are taking and this is often the one where monitoring and regulation in one form or another replaces trust, often without question. Sometimes this monitoring and regulation may be appropriate but there is little debate about where the lines might be drawn in this area.
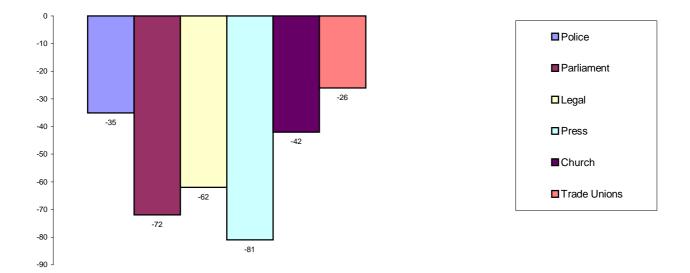
Most discussion currently centres around self interest groups fighting their own corner. One example of this would be the relationships between service providers or retailers and the consumer. The service providers or retailers usually ask that the burden of the costs of regulation are reduced because they can be trusted to provide a service or product in the best interest of the consumer. The consumer does not have the same level of trust or confidence and often prefers tighter regulation to protect them from possible problems or unfair practices. Recent cases might include the mis-selling of pensions and other financial services, the pricing of cars in the UK and the health standards in the food industry. Little attention has been paid to the development of relationships of trust with consumers in these areas, with costly results for those industries concerned.

Some quantitative examples of the scale of mistrust

- More than 2/3 of nearly 400 employees surveyed in the banking and health sectors had no trust in senior management and 23% had no trust in their immediate line manager[26].

- Almost 50% of workers surveyed in 20 establishments across a wide variety of sectors said that they cannot trust their managers at all or only a little[27].

- A survey of 245 manufacturers around Europe concludes that company bosses fail to take a trusting enough approach to sharing information with suppliers thereby holding up initiatives to boost the competitiveness of European industry[28].

Decline in social trust

There has also been a considerable decline in social trust over the last 16 years. For the following institutions, the % fall in confidence from 1983 to 1999 has been[29]:

% FALL IN CONFIDENCE

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4)	SPELLING OUT THE VALUE OF TRUST – THE EVIDENCE

The existence of trust is a source of competitive advantage. Mari Sako has analysed three kinds of benefits to business performance that can arise from the presence of trust[30]:

- It reduces transaction costs
- It allows investment to increase future returns (for instance with a supplier or an employee)
- It results in continuous improvement and learning

Some specific examples of the value of trust are outlined below.

Supply Chain management

As John Mariotti has put it:

The weakest link in the most advanced supply chains is not technology, not software or hardware, but people – or rather the level of trust between people who must cooperate and collaborate to get results[31].

One important study has examined the value of trust in the relationship of the 8 biggest automobile manufacturers in the US, Japan and S Korea with their 435 suppliers[32]. The study asked how much the suppliers trusted the auto-makers by using

the following definition of trust: "confidence that the other party will not exploit one's vulnerabilities".

The results of the research indicate, [firstly], that in all three countries, relationships with higher levels of trust had substantially lower costs. In the US, the auto-maker with the lowest trust levels spent nearly half its face to face time with suppliers on unproductive transaction orientated matters whilst the manufacturer with the highest trust rating only had to use one quarter of this time on such matters. [Also], purchasers at the most trustworthy US manufacturer, freed from….checking on suppliers, handled more than twice as many goods in $ value as the least trusted manufacturer.

[Secondly], they found that suppliers that trusted their customers were far more likely to offer ideas on designing and manufacturing components than those that had little trust. In turn, the auto-makers were more willing to share ideas about how the suppliers could improve their own manufacturing and distribution processes….

Trust actually adds value to a relationship because it encourages the sharing of resources. [In addition], making an effort to treat suppliers or customers as partners can bring substantial competitive advantage.

Interestingly, this study also implies that more face to face communication, in itself, does not necessarily generate more trust. The important factor seems to be what the face to face communication is concerned about and why it is taking place.

In another industry, Jim Sierck of Xerox USA estimated that the bureaucratic structure created to handle the lack of trust in their buyer/supplier relationships cost them around 7 cents in the dollar[33].

The value of trust is not specific to supply chains. This only serves as an illustration. The principles which lie behind the value of trust will apply to any other kind of relationship although the particular benefits seen might present themselves differently from relationship to relationship.

Innovation

A survey by PricewaterhouseCoopers of 300 large companies in the manufacturing and service sectors reported:

At the heart of the issues impacting how people work together is trust. Of the quantitative data in the survey, trust between people which enabled them to share ideas freely was the single most significant factor in differentiating successful innovators.[34]

Trust promotes the sharing of both ideas and experience and hence leads to innovation. If this shared knowledge is managed successfully then this will improve the performance of the organisation.
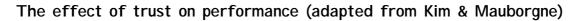
Knowledge management can only work in an atmosphere of trust. There are still companies where people respect each other and are happy to share what they know. The others are probably wasting their time[35].
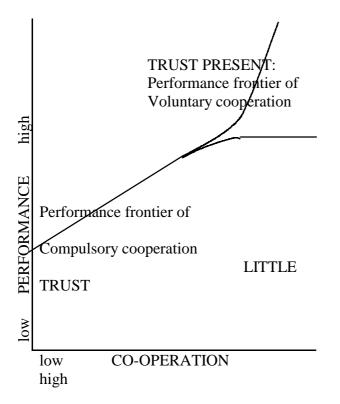
As Lew Platt, former CEO of Hewlett-Packard, has said: *"If HP knew what HP knows, we would be three times as profitable"*.

Trust enables this to happen.

Managing change in organisations

Nowadays organisations must continually change to stay responsive and competitive in an ever changing global market. In this sort of climate, the researchers Kim & Mauborgne have determined that fair process (see table 1) will help bring about trust and commitment which will then maximise co-operation and business performance[36] (see graph below). In contrast, traditional tools of resource allocation, economic incentives and organisational structure will tend to produce an attitude of outcome satisfaction which will lead to compulsory co-operation and a lower level of performance.

The effect of trust on performance (adapted from Kim & Mauborgne)

TRUST PRESENT:
Performance frontier of
Voluntary cooperation

Performance frontier of

Compulsory cooperation

LITTLE

TRUST

PERFORMANCE
high
low

low   CO-OPERATION
high

Value of Social Trust

If trust exists in society or in certain parts of it, then this gives rise to social capital.

Social capital represents the fund of trust and goodwill in any social group that enables people within it to collaborate with each other without having to first write a legal agreement[37].

Social capital, therefore, helps society to work more efficiently. If we remember that Putnam believes social trust is generated by norms of reciprocity and networks of civic engagement (see section 2), he also says that:

Without norms of reciprocity and networks of civic engagement…..amoral familism, clientelism, lawlessness, ineffective government, and economic stagnation seem likelier than successful democratization and economic development[38].

Crime levels, good government, economic performance, these all lie at the heart of a successful society. Putnam, therefore, links all these with social trust. He believes that, based on his detailed analysis of the Italian regions, social trust explains the large differences in economic and social success between Northern and Southern Italy.

The potential benefits of opportunism, cheating and shirking also tend to increase in complex societies[39]. Therefore the presence of social trust and social capital becomes even more important to inhibit or discourage these behaviours.

Similarly, Fukuyama believes that social trust and social capital have major consequences for the industrial economies our societies are trying to improve:

If people who have to work together in an enterprise trust one another because they are all operating to a set of….norms, doing business costs less. Such a society will be able to innovate organisationally, since the high degree of trust will permit a wide variety of social relationships to emerge. Hence highly sociable Americans pioneered the development of the modern corporation in the late nineteenth and early twentieth centuries, just as the Japanese have explored the possibilities of network organisations in the twentieth[40].

Here we see that the benefits of trust which we have already seen on a smaller scale at the individual and organisational level, can also apply at a more general level in society to help it function effectively.

Fukuyama suggests, therefore, that there has been a relationship, for instance, between high-trust societies such as Germany, Japan and the United States and their ability to create large, private business organisations. He also suggests that trust and social capital will now help the transition of these large hierarchical corporations into networks of smaller companies as organisational structures evolve to cope with changing markets and technologies. He believes that:

A high-trust society can also organize its workplace on a more flexible and group-oriented basis with more responsibility delegated to lower levels of the organisation. Low trust societies, by contrast, must fence in and isolate their workers with a series of bureaucratic rules[41].

Although the predominance given to social trust and social capital by Fukuyama as the reason for business and economic success is probably over emphasised (see section 5), there is no doubt that these factors can play a significant role in such success.

Distrust costs money and often leads to conflict

Distrust usually costs money:

....people who do not trust each other will end up cooperating only under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated and enforced, sometimes by coercive means. This legal apparatus, serving as a substitution for trust entails what economists call "transaction costs". Widespread distrust in a society, in other words, imposes a kind of tax on all forms of economic activity, a tax that high-trust societies do not have to pay[42].

It also breaks up relationships:

Perhaps the most potent factor in the escalation of conflict is distrust. Distrust may be, and often is, fostered by misperception of the partner, a failure to "read the other's mind" correctly. The perceived failure of one partner to justify the other's trust may lead to a sense of betrayal, with disastrous consequences for the relationship[43].

Although Robert Hinde is primarily talking about personal relationships in this quote, it applies equally to other kinds of relationship.

There are many examples of the cost of distrust. At a global level, one might look at the cold war. In many ethnic wars such as in Bosnia, Northern Ireland (which we have already touched on) and Rwanda, distrust is a major factor either in escalating a conflict or in preventing its resolution.

In the world of business, the current anti-trust suit against Microsoft is partly about the lack of trust in that organisation not abusing (or continuing to abuse) its powerful market position. Many commercial relationships founder each year through distrust. This distrust may be based on reality, for instance if the other party has clearly treated you unfairly. It may be, though, that it is only the way you interpret the other party's behaviour or motives that leads you to distrust them (whether or not it is actually based on fact). Also, in the area of industrial relations, attempts to resolve agreements can often founder because one side does not trust the other side to do what they say they will. Parties often believe (sometimes correctly) that there will be some unseen loophole or a hidden agenda which lies behind the public face of any dispute.

Rhetoric can cause distrust

One other major source of distrust is rhetoric. This is often exemplified by leaders in business, government or any group who wish to communicate a message or present an image. In these cases, there can be a credibility gap between what is being said and the reality of the situation. Herriot et al give some examples of these 'credibility gaps' which can be found in business organisations[44]:

- *Old employees cannot all be bad when we have to bring back those who were sacked because their experience is indispensable.*
- *If we are all valued human resources, why are we being burned out rather than developed?*
- *If we are all supposed to share the same values, why is it only top management's values that are on offer?*

- *If it is equal misery and equal ultimate cake for all, why are top management awarded obscene golden handshakes and monster share options, while [other employees] get outplacement (if lucky) and inflation-linked rises only?*

People start to lose their trust in an organisation when the words spoken and values espoused by its leader(s) do not conform to what is actually happening in that organisation.

Insecurity lowers levels of trust

A person can feel, for example, insecure about their position in their organisation because they feel they might be at risk of losing their job. A group of people, especially if they have little power or influence, may feel very insecure and vulnerable in the society they live in. This insecurity often leads to a lack of trust in that organisation or in society as a whole.

Trust and security have a symbiotic relationship with each other. If I am feeling more secure, I am more likely to take the risk involved in trusting somebody else…..and will even be prepared to do something for them without any prospect of immediate reciprocation since I'm so confident that they will be there when I need them.[45]

Where trust is scarce, the opposite will be true and the resultant insecurity will mean that I will be frightened of being taken advantage of or betrayed. I will be careful of what I say, be suspicious of others' intentions and be less cooperative if I work, say, in a team.

Feelings of insecurity in employment have been of considerable concern in recent years:

- From 1990 to 1996, employee satisfaction with employment security decreased from 76% to 43%[46].
- In 1998, employment insecurity was at its highest for 30 years despite a tight labour market. The most insecure group were professional employees who used to be the most secure group[47].
- The average new job lasts just 15 months and only 20% of them last for more than 5 years[48].
- 93% of business start ups fail within 18 months[49].
- There has been a high level of mergers and acquisitions in the last five years with consequent job losses.

These levels of insecurity are likely to have a considerable knock on effect on the levels of trust between employers and their employees. Not only is this insecurity felt but as we see above there can often be good reasons for it[50]. This has been a source of a number of recent disputes with Trade Unions. One of the consequences of businesses becoming ever more flexible in order to deal with rapidly changing markets and opportunities is that employees are more likely to be treated as readily disposable. Yet employers often expect a high level of commitment and cooperation from their employees which will only come about if a high level of trust is present. Employment insecurity will prevent this. There are choices to be made here between

the benefits from trust and those from flexible employment practices. There are limits to which both can be enjoyed.

When trust is broken

Finally, once trust has been violated, it can be extremely difficult to repair the situation so that the relationship returns to the way it was before that breach of trust. There is often 'no going back'.

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5)   WHEN TRUST IS NOT AN ASSET

We have looked at some of the benefits of trust. However, trust can, in certain circumstances, be bad for society and the converse, a degree of mistrust, can be quite healthy:

Trust is not always an unalloyed good, and many forms of trust are literally anti-social in that they constitute conspiracies against other people or against moral principles. Organised crime is one extreme example, [business] cartels are another, and groups like Freemasons are a third. Healthy societies depend on mistrust as well as trust.....trust is not a virtue [in itself]. It is one possible means to virtuous ends.[51]

The promises of politicians, especially when there is an election coming up, are a good example of when a degree of mistrust might be very healthy.
Countries such as Germany and Japan have, until very recently, been held up as examples of flourishing business economies which observers such as Fukyama[52] and Morton[53] say have been a result of the level of social trust in these countries. However recent events in Japan, where the economic bubble has burst, have put a question mark over the degree to which trust and consensus are healthy, particularly if that trust relationship is abused to the detriment of other parties or groups. In Japan, to quote Jonathan Rauch[54]:

".....trust and personal ties are coins of the realm.....relationships are power.....to get things done you must build relationships, earn loyalty, develop trust and pay your dues.

All this tends to result in a high level of trust in Japanese relationships. Rauch explains how this makes it very difficult for a newcomer to enter this 'cosy' system as it takes a great deal of investment of time and effort. It also makes it difficult to bring about changes in the way things are done or to innovate. This is because the high levels of trust and consensus make it hard for people to bring differing opinions or ideas to any discussion. Any outsider or newcomer to one of these close systems of relationships, who tries to introduce new ideas, will tend to be ignored. Once you are a part of one of these systems then whether as a farmer, retailer or banker, the mutual back scratching does not encourage any change or upheaval. The cosiness and inherent trust in such relationship systems can encourage the wrong sort of favours between parties - deals which exclude the 'little guys', the outsiders and the newcomers. For instance, Nomura Securities, which was the world's largest brokerage business, was discovered to have refunded its largest customers $120million for the losses they had made on the stock market, so important were these relationships. Nomura, therefore, effectively provided these important

customers with a risk free investment. These refunds were made at the expense of other smaller customers' and foreigners' accounts.

Since then, over the last few years, quite a number of the cosy relationships between government and business and also between large business organisations have been shown to cover up not only poor performance but also malpractice and fraud. It has also stifled competition so that the Japanese consumer has often had to put up with a lower range of services at higher costs than a Western counterpart.

This is not to say that the benefits of trust that have been set out throughout this article cannot be real. However, it does suggest that we should always ask the question as to who exactly we are putting our trust in, on what basis and why. Networks of trust relationships should not be bringing benefits at the expense of other third parties who are, as a result, being exploited. Such practices usually end up being broken up sooner or later, often at great costs to the participants. In Japan, not only has this resulted in a lot of apologising by business leaders recently but there has also been an unprecedented number of business collapses, of which a significant number, directly or indirectly, are a consequence of these too cosy relationships.

The situation is therefore a little more complicated than Fukuyama and Morton would appear to have us believe. Placing trust in another person or organisation does bring with it its risks. It should be carefully considered in light of the knowledge and experience you have of the other party and the effects and consequences that this level of trust might have on others elsewhere.

CONCLUSION

Trust, whether it is personal, in business or in communities is not easily gained. It is much more easily lost. But once won, the value of an appropriate level of trust in a relationship can pay dividends in decreased costs, increased effectiveness and innovation for the future. It can bring financial benefit to businesses, improve the quality of personal relationships and increase the social capital of communities and society. It is probably the single most important ingredient of a successful relationship.

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