Trust between Organizations: A Review of Current Research and Recommendation for the Future

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Abstract

As business has grown from single company towards network collaboration, trust and inter-firm trust is more important than before. Trust is a belief that collaborative partners can do what they promised in an agreement. However, in reality it is difficult to build up deep trust and confidence in a long term. This paper aims to improve the understanding of trust within organizations. By reviewing current literature, it summarizes four major trends of studies on inter-firm trust. The first trend is the analysis of trust components - competence, reliability and goodwill. The second trend views trust as dynamic process. The third trend is associated with supply chain relationship management. The fourth trend tends to combine trust with social factors. A conceptual framework is further generated to highlight the potential research areas of inter-firm trust in: 1) the dimensions of trust; 2) the process of inter-firm trust formation, development and continuation; 3) the linkage between trust dimensions and culture dimensions. There is a requirement for more qualitative research to explore key trust dimensions and activities, with a combination of quantitative approach to test the proposed hypothesis.

Keywords: trust, inter-organizational trust, culture, inter-firm relationship

1. Introduction and Overview of Trust Studies

As firms continuously grow towards network, the soft side of management such as relationship and trust has drawn much attention. In most manufacturing sectors, trust is now a part of the critical relationship between suppliers, OEMs, contractors, distributors and customers. Although there are different definitions of trust, it is generally believed that trust is essential in network and partnership development process, and it is expected that collaborative partners can be relied on to fulfill obligations (Zaheer et al., 1998), to behave in a mutually acceptable manner (Sako, 1998), and to take risk (Kwon and Suh, 2005) during collaboration. From philosophical perspectives, trust is built upon deep thinking, moral system and professional development (Platts, 2003). In practice, trust is associated with activities that help to establish reputation, form alliance, share information, and develop common goal in an effective way. Trust can be observed from multi-levels such as inter-personal, organizational, inter-organizational and international level in cross-border collaboration. The study of trust also requires multi-disciplines sources from sociology, psychology, organization behavior and international business. Within firms, trust can be interpreted as an extension of inter-personal trust, based on the familiarity between people during prior interaction (Rotter, 1980). In business network and alliances, organizational performance relies largely on trusting relations between both individuals and groups. On a macro-environmental level, trust has further interaction with institutions and cultures, especially in cross-border collaboration. Based on existing findings and approaches, this paper will review key theories of inter-organizational trust. Specially four trends of studies are pointed out: 1) trust as constructing components - to identify different types of trust, 2) trust as dynamic process - to view trust as a continuous learning process, 3) trust in a network - to explore the activities to form trust between organizations 4) social interaction - the institutional and cultural factors of trust. New agenda of future research will be suggested in the end with a framework of trust between organizations - a focus on trust dimensions, processes and culture factors.

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2. The First Trend - Trust as Constructing Components

To explore the nature of trust (both trust within and between organizations) such as its constructing components and factors, there are many literatures. Among early studies, Gabarro (1978) addressed the factors of consistency, competence, motives, openness and integrity in a trusting relationship. These elements were further explained as predictability, dependability and faith (Rempel et al., 1985) in inter-organizational relationship. Here “Predictability” is the belief that actions will take place, based on the assumption that partners have demonstrated certain capability - similar to competence. “Dependability” refers to the reliable and repeatable actions as stated in agreement – similar to consistency. “Faith” means a strong emotional security and social connection. To demonstrate the original nature and functions of trust, Sako (1992) further classified four types of trust as contractual, competence, fairness, and goodwill trust. Contractual trust is built upon agreement – similar to dependability, whereas competence trust can be found in proved capability and experience. Mayer et al. (1995) also highlighted the importance of ability, integrity and benevolence in trust. It is clear that some parts of trust are easier to demonstrate (through contract and capability), but some factors are more intangible. To explore the deep nature of trust, McAlister (1995) categorized two general aspects: cognitive and affective issues. “Cognitive” factors include reliable competence and specific contract, and “affective” issues are associated with emotional exchange. Through literature, a broad concept of trust and its components are gradually identified, regardless of intra or inter-organizational issues. With the popularity of inter-firm relationship in business studies, the concept of reliability, competence, goodwill features of trust (Dyer and Chu, 2003; Lui and Ngo, 2004; Kwon and Suh, 2005; Ireland and Webb, 2007) are also explored recently in the supply chain management, in particular, the relationship between suppliers and buyers. It is generally suggested that trust means a confidence that partners will act according to what they have agreed to do. To summarize the components of trust, three main aspects (Table 1) can be seen as competence (trust based on skills, capability and qualifications), reliability (trust based on contract, agreement and fairness), and goodwill (trust based on relations, benevolence and shared values). The competence and reliability trust are consistent with the cognitive factors, while goodwill trust needs more time to develop.

<table>
<thead>
<tr>
<th>Trust</th>
<th>Resources and trustworthiness factors</th>
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<tbody>
<tr>
<td>Competence trust</td>
<td>Cognitive (McAlister, 1995), Competence (Gabarro, 1978; Sako, 1992; Lui and Ngo, 2004; Ireland and Webb, 2007), Ability (Mayer, 1995), Work standards (Coulter and Coulter, 2002; Kwon and Suh, 2005); Experience and qualifications (Coulter and Coulter; 2002)</td>
</tr>
<tr>
<td>Reliability trust</td>
<td>Promise keeping (Anderson and Narus, 1990; Ring and Van de Ven, 1992), Reliability (Zaheer et al., 1998; Dyer and Chu, 2003), Predictability (Rempel, 1985; Zaheer et al., 1998; Sako, 1998; Handfield, 2003), Contractual (Sako, 1992), Credibility (Ganesan, 1994), Fairness (Zaheer et al., 1998; Dyer and Chu, 2003)</td>
</tr>
<tr>
<td>Goodwill trust</td>
<td>Openness (Anderson and Narus, 1990), Non-exploitation (Sabel, 1993), Relationship equity (Ring and Van de Ven, 1992), Affective (McAlister, 1995), Goodwill (Sako, 1992; Lui and Ngo, 2004; Ireland and Webb, 2007), Honesty (Kwon and Suh, 2005); Benevolence (Ganesan, 1994; Mayer et al., 1995; Kwon and Suh, 2005), Integrity (Mayer et al., 1995), Faith (Rempel, 1985; Parson, 2004), Shared values Coulter and Coulter; 2002)</td>
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</table>

3. The Second Trend - Trust as Dynamic Process

The second trend of trust research focuses on the fundamental issues related to deep values, and view trust as a dynamic upgrading process. Fundamental theories can be seen from Maslow’s (1954) hierarchy of need, Herzberg’s (1966) motivation and hygiene factors of leadership, Kotter’s (2001) emphasis on human needs, values, and emotions, and Schuitema’s (2000) care and growth model. It is general believed that trust has different degrees, and requires for a dynamic process of development from fulfilling basic needs towards deep mutual understanding. To view trust as process, Lewicki and Bunker (1996) proposed a model with “calculus-based trust”, “knowledge bused trust” and “identification-based trust”. According to this model, the three stages of trust are connected, rather being separate types of trust. This provides a new perspective of studying inter-organizational trust - as a dynamic process. Later on, Doney and Cannon (1997) also proposed a process based trust model with five factors: calculation, prediction, capability, intentionality and transference through which industrial buyers can develop trust on a supplier firm. The model also suggested that motivation can be achieved in the final stage of trust building.
Recent studies of Skandrani and Triki (2011) adopt an explanatory approach to map the trust building processes as calculative-based, predictive-based, intention-based and identification-based stages.

![Figure 1: Trust and Relationship Competence Adapted from Platts and Tomasevic, 2004](image)

Research also indicates that trust is a continuous process of learning. In order to achieve real trust, deep thinking, professional practice, caring and consideration about human beings are all required. One should upgrade gradually from beginner, apprentice, journeyman to mastery - a deep level of trust combining of professional practice, responsibilities and goodwill (Platts, 2003). From process-based framework (Figure 1), three types of trust - competence trust, contractual trust, and goodwill trust - can be seen as a ladder of progression of "can-will-do" (Platts and Tomasevic, 2004). It is assumed that training and guidance is important in the beginning as a manager; whereas a professional personal, as a leader, will seek opportunities to demonstrate goodwill trust with care and benevolence.

4. The Third Trend - Trust in a Network

The previous two trends of trust research view trust as different functions and levels; however, there is no clear boundary of how inter-firm trust is different from intra-firm trust. When investigating the inter-firm collaboration, there is a third trend of trust research appears - a network/relationship view. Studies suggest that in order to build trust relationships, certain activities can be done, such as gift giving to promote goodwill development (Sako, 1992), learning process (Inkpen and Curral, 2004) to efficiently share resources, and conflict management to enhance mutual understanding. The building-up stages of trust are discussed in terms of formation, maintenance, dissolution and repair; with the influence of trust on alliance performance (Krishnan et al, 2006; Robson et al, 2008). Typical issues include information sharing and risk management (Jap and Anderson, 2007) and relationship repair (Gilliespie, 2009). There are many quantitative studies to link inter-firm trust with business performance. Morgan and Hunt's (1994) key mediating variable (K MV) model - trust, commitment, cooperation, communication, shared values, uncertainty - is also implemented to explore within supply network contains upstream relationship - as purchaser, dealing with suppliers; and downstream relationship - as supplier dealing with customers. When studying in to inter-firm relationship in manufacturing sectors, contractual relationship or outsourcing in forming collaborations are also highlighted. In the book of “Strategic Industrial Sourcing: the Japanese advantage”, Nishiguchi (1994) analyzed the system of supplier relations in Japanese automobile and electronics industries. Team spirit, long-term gains, and subcontractor's continuous improvement are highlighted in the collaboration - which is believed to develop a good inter-firm relationship. Legal, social-economic concepts are studied on agreement development (Cullen et al, 2005). While most studies on inter-firm trust focus on the linkage of trust with a specific area of relationship management such as negotiation and information sharing, there are a few qualitative studies trying to capture the stages and actions along with trust development, such as to link trust in a relationship lifecycle (pre-relationship, early interaction, relationship growth, partnership, relationship end stage) (Heffernon, 2004). Recent work (Huang and Wilkinson, 2014) has also divided trust process into five phases: initial building, confirmation/disconfirming, developing stabilizing, sustaining phases with a focus on inter-firm collaboration.
With the emerging “new communities” like virtual teams and global business networks, it brings new requirement for trust in a network. Arto and Monroy (2010) identified the relations between trust and degree of virtualization in global manufacturing virtual network (Figure 2). According to their studies, personal and informal relationship will grow stronger as manufacturing system becomes more inter-connected and virtualized. Recently there are also many researches on the trust relationship in general virtual communities and e-commerce.

Figure 2: Relation between Trust and Degree of Virtualization in GMVNs Adapted from Arto and Monroy, 2010

5. The Fourth Trend - Social Interaction

With the trend of globalization, culture and other social issues are found to influence the innovation, commitment and sustainability of supply network. Therefore, there is a need to explore the interaction between culture and inter-firm trust. The culture dimensions proposed by Hofstede (1980) are used in most studies. For example, Kale and Barnes (1992) suggested that in a high uncertainty avoidance culture, strong guarantees, formal rule were needed in supply chain relationship. By further testing the impact of culture on alliance, it is found that power distance influenced alliance structure and communication control systems (Parkhe, 1991). Though the meaning of trust may vary from culture to culture, the characteristics of trusting culture are generally described (Lewicki et al, 1998; Adler, 2004; Weinhofer, 2007) as autonomy, sharing similar values, and innovation. By contract, high degree of supervision, long social distance and strict rules can result in distrustful culture (Table 2).

Table 2: Structural Dimension Regarding Distrustful and Trusting Cultures

<table>
<thead>
<tr>
<th>Distrustful culture</th>
<th>Trusting culture</th>
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<tbody>
<tr>
<td>- High degree of supervision</td>
<td>- Autonomy</td>
</tr>
<tr>
<td>- High degree of social distance</td>
<td>- Low social distance</td>
</tr>
<tr>
<td>- Inflexibility, many rules</td>
<td>- Flexibility in rules to accommodate changing needs</td>
</tr>
<tr>
<td>- Small latitude of acceptance</td>
<td>- Creating room for maneuver</td>
</tr>
<tr>
<td>- Opportunism</td>
<td>- Self-control, limited possibilities for opportunistic behavior through reputation incentives</td>
</tr>
<tr>
<td>- No loyalty and no identification of shared values</td>
<td>- Sharing similar values</td>
</tr>
<tr>
<td>- Frustration, resignation, boredom, stress, alienation, vindictiveness</td>
<td>- Openess, honesty, integrity, truthfulness Organizations as open systems</td>
</tr>
<tr>
<td>- Organizations as closed systems</td>
<td>- Long-term systematic incentive system</td>
</tr>
<tr>
<td>- Inadequate or inappropriate incentive system</td>
<td>- Innovation, change management</td>
</tr>
<tr>
<td>- Glamorizing traditions, organizational rigidity</td>
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Adapted from Weinhofer, 2007
While studying into the Chinese collaboration, it is found that family and “guanxi” are prioritized values in forming trust, however, reliability, fairness and professionalism are highlighted in many Western countries (Jiang and Chua, 2010). More research can be seen on the interaction of culture and contractual relationship in supply chain management. From the comparison of supplier relationships in North America, Europe and Japan auto-industry, it is found the North American companies prefer dual sourcing strategy and written contracts, while Japanese practice prefers close-to-single-sourcing policy; supplier’s right are highly protected in Japan by patents, and written contract, whereas such agreement are not so formal in Europe; European companies show “goodwill” such as appreciating partners’ know-how, whereas such intention is not important in Japan; The continuous improvement of performance of subcontractor is highly important in Japan, with high control, standardization and competition (Nishiguchi, 1994). Trust issues also appear in international business literature related to cross-culture management. Li (2013) suggested that there are differences between intra-cultural trust and intercultural trust, and proposed a framework of integration (Table 3). In general, there are some mechanisms to facilitate cross-culture inter-firm trust, such as “frequent interaction”, “shared professional background”, and “intermediaries” (Gerbasi and Latusek, 2010).

Table 3: A Typology of Trust-Building Strategies for Intercultural Interactions

<table>
<thead>
<tr>
<th>Intra- and inter-cultural trust</th>
<th>Weak intercultural trust</th>
<th>Strong intercultural trust</th>
</tr>
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<tbody>
<tr>
<td>Trust-building mode &amp; pattern</td>
<td>Marginalization</td>
<td>Separation</td>
</tr>
<tr>
<td>Trust-building patterns:</td>
<td>Little intra-cultural interaction</td>
<td>Much intra-cultural interaction</td>
</tr>
<tr>
<td>Trust-building outcomes:</td>
<td>Little intercultural interaction</td>
<td>Little intercultural interaction</td>
</tr>
<tr>
<td></td>
<td>Little adaptive learning</td>
<td>Little adaptive learning</td>
</tr>
<tr>
<td></td>
<td>Little adaptive trust-building</td>
<td>Little adaptive trust-building</td>
</tr>
<tr>
<td>Integration</td>
<td>Moderate trust forms</td>
<td>Strong trust forms</td>
</tr>
<tr>
<td></td>
<td>Moderate personalised bases</td>
<td>Strong personalised bases</td>
</tr>
<tr>
<td></td>
<td>Moderate depersonalised bases</td>
<td>Strong depersonalised bases</td>
</tr>
<tr>
<td></td>
<td>Moderate intercultural cooperation</td>
<td>Strong intercultural cooperation</td>
</tr>
</tbody>
</table>

Adapted from Li, 2013

Besides culture interaction, institutional-based trust is also considered important in inter-firm relationship. For example, it is suggested that Toyota’s trusting relationship with suppliers are more based on the firm’s institutionalized processes for dealing with external firms rather than on personal relationships (Dyer, 2000). Institutional trust may be built upon structures, processes and routines that create a stable context (Dyer, 2000).


Through literature review, a conceptual framework (Figure 3) can be generated, which highlights trust between organizations and its interaction with different cultures. The concept of trust has extended from interpersonal level, intra-organizational level, towards inter-firm level on a larger scale. This is consistent with the growth of manufacturing system from in-house production towards inter-firm collaboration. Culture factors including organizational culture and national culture will influence the way trust is developed. Based on this concept framework, three potential research areas “trust dimensions/ measurement”, “trust process”, and “cultural impact” are highlighted with the following research questions.
Research Question 1: What are the KPIs to Measure Inter-Firm Trust?

Researchers have revealed the characteristics of trust in terms of competence (trust based on profession and capability), reliability (trust based on contract and agreement), and goodwill (trust based on good intention and relationship) - as seen from the first trend of trust studies. However, little studies have covered more details of how to evaluate different types of trust. For example, in competence trust, some potential indicators can be credibility competence (ranking from government report; recommendations from previous collaborative partners, comments from industry friends; recommendation from industry website), experience competence (years of knowing each other; previous collaboration experience; trade record), cost competitiveness (finance strength); quality competence (quality of previous product; sample product and its feedback from industry exhibition); operation competence (technology and facility; capability of managing product life cycle); marketing competence (market place and sales records; marketing cases; capability of promoting and sales; distribution channel capability); relationship competence (familiarity with suppliers; involvement in industry association); culture competence (knowing local culture; familiarity with the procedures of localization, sharing the same vision; company philosophy; organization structure). Similarly, reliability/contract as a tangible part of trust can be measured through KPIs. The factor of fairness is addressed in many studies. Other factors may include consistency, the clarification of responsibility, duration and mutual interests of contract. A deep observation and analysis into the key elements of business collaboration contract can help to develop dimensions of reliability trust. Goodwill should also be measured through detailed indicators. In particular, the elements of friendly attitudes, honesty, passion factors (such as faith), and willingness to share need to be investigated deeply. Though goodwill trust is intangible, however, it can be further identified by qualitative studies, such as interviewing people and generating their values and attitudes towards inter-firm trust. Then the research should focus on how to quantify the results, and thus to measure the performance of mutual trust.

Research Question 2: What is the Development Process of Inter-Firm Trust?

Current literature has covered certain areas of trust process such as goodwill development, conflict resolution, and learning process - as seen from the second and the third trends of trust studies. However, there are few such models to clearly define the stages of trust development. Will it go through the stages of introduction, growth, maturity and decline, like the product life cycle? Or once established, trust will be maintained for a long-term, and thus unlikely to decline? An easy way to study the development process of trust is to follow an inter-firm collaboration project from the beginning of partner selection, to the end of relationship (a higher level of trust).
A basic model is proposed in Figure 4, which is consistent with the “can-will-do” assumption. Competence assessment can be important as an evaluation indicator during the period of partner selection. This is because competence is tangible, and is generally believed as the early stage of building up trust. Reliability trust is formulated during contract development. Once collaboration started, it is assumed that inter-firm goodwill influence information sharing, communication, and control of quality. In a long run, trust can continue with a co-evolution of competence and further relationship development. This proposed preliminary model needs to be improved and validated through some qualitative research. Case studies can better help to capture the stages of trust development, and to identify the key decision making areas and mechanism to build up trust in each stage.

Research Question 3: What are the Cultural Factors in Inter-Firm Trust?

International collaboration and globalization is an inevitable trend. Companies from different national culture are connected together in the globalized supply network. Even within the same country, each firm may have its unique organizational culture and sub-culture. Trust building also relies on mutual understanding and integration of different culture. Current literature has pointed out the differences between intra-culture trust and inter-cultural trust. Is it true that collective culture prefers relationship building, whereas culture with emphasizing performance will highlight competence trust? Although culture is relatively intangible, its influence can be observed through different processes and people’s opinions. More studies should be carried out to find how culture dimensions interact with trust dimensions. A series of quantitative methods can be used accordingly, along with in-depth case studies into the cross-culture trust development.

7. Conclusion

From literature review of the most influential trust studies, different trends of studies are identified. As firms have developed more towards inter-firm network and internationalization, an understanding of trust within and between organizations are important. In general, four trends of inter-firm trust studies are observed as “the components of trust”, “the dynamic process of trust”, “developing trust between organizations” and “social impact”. From the above analysis, a conceptual framework - dimension, process, and culture impact- for trust researches proposed in this paper. The first proposed area is the dimensions of inter-firm trust. In particular, KPIs of competence, reliability and goodwill trust are needed. Secondly, there is a requirement to identify the detailed activities to build up trust from a process perspective. Key stages and activities should be further identified through qualitative studies. A third potential area regarding future research is to use quantitative methods to link trust with culture.
References


