

**The Appeal and Difficulties of Trust**  
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**Introduction**

Greetings! Thank you for this wonderful opportunity to be with you again. I trust you are enjoying this MAOM conference and luncheon. Are you?

- Do you trust that the meal that you are eating will not harm you? Most of us will say yes, but how do you know? Did you test it for botulism? Of course not. I wouldn't know botulism if I saw it! We trust that the USDA and FDA are doing their jobs.
- Do you trust that the other people seated at your table will not harm you? Did you screen each person? Of course not. We trust that our police and security institutions are doing their jobs. Besides, we trust that every person at this Academy conference is law-abiding, civil, and respects the rights, property, and well-being of each individual. Would you feel the same if you were having lunch with a group of terrorists in Baghdad?
- Do you trust that what I am going to say is trustworthy – the truth, the whole truth, and nothing but the truth? Will you check my references? Probably not. I answered the questions in the Bromiley and Cummings (1995) trust scale, and I flunked it! Does that matter to you? Perhaps it doesn't. This is not a life-and-death situation. I'm just passing your time away at this luncheon so you can worry about what you just ate!
- At any rate, I think that what I will say the next 25 minutes will be interesting. Trust me!

There are compelling reasons to trust others. Trust is confidence in the goodwill of others when you are vulnerable (Ring & Van de Ven, 1994). Trust is a good thing. It is very appealing. Like honesty, integrity, and competence, trust is a deeply shared value. It is the glue that bonds relationships and the fabric of our society. We trust our institutions, organizations, strangers, acquaintances, and significant others in varying degrees and for different things. Trust provides security and meaning to life. It permits us to get on with life without having to inspect and monitor all the uncertainties and inexplicable situations that we cannot control but to which we are vulnerable.

Despite the immense appeal and importance of trust, it seems to be declining in our society and organizations. Why is there such a discrepancy between the appeal and difficulty of trust? I will argue that the barriers to trust are deeply embedded in our fallible human nature and in our changing organizational and institutional context. Some of us may treat these barriers as difficult problems that can be overcome through patient, well-designed behavioral interventions. However, as the old saying goes, these interventions are equivalent to “putting a Band-Aid on gangrene.”

I will conclude that trust among individuals and organizations should gain higher priority in our teaching, research and practice. There has been a good deal of research on building trust. When there is a breach of trust we assume that relationships terminate, and parties move on to find another partner. But human beings and their institutions are fallible. No relationship is perfect. How do we go on with relationships when violations occur? Very little attention has been paid to forgiveness, repair, and reconstruction of trust in relationships that have experienced a breach in trust among the parties.

### **The development of trust.**

I will rely on John Bruhn in this talk about trust. He has written a wonderful book titled *Trust and Health of Organizations* (2001). He summarizes many studies showing trust is created, learned, experienced, involves extensive investment, is reciprocal, and evolves.

- **Trust is created** through dialogue and conversation and through gestures, looks, smiles, handshakes and touches (Bruhn, 2001: 22). Friendships promote trust (Olk & Elvira, 2001), (or is it vice versa?). As Homans (1950) discussed in *The Human Group*, trust is produced through a gradual process of interpersonal interactions, sentiments and norms.
- **Trust is learned.** We just heard an inspiring speech by Dan Hanlon, on “Riding the American Dream” (founding CEO of Excelsior-Henderson Motorcycles). He said that much of what we know about managing people we learn as a child (and tend to forget as we grow up). He is right. The first of Erickson’s (1963) eight stages of human life is the development of trust at infancy and early socialization. During the early years of life a person learns to develop a “trusting attitude” toward his/her outer world and toward self. The word “trust” is closely related to the word “truth.” The trusting attitude, then, is one in which we take social life and specific aspects of it for granted (Holzner, 1973).
- **Trust involves extensive investment.** If parents and caregivers have invested little during the early years of a child, far greater investment may be required in later years to compensate (Hardin, 1993). Trust and distrust are not exclusive or opposites. We may therefore, have different capacities for trust and mistrust in a given relationship, and this capacity is a byproduct of our experiences.
- **There are different kinds of trust, and it varies with individuals.** **Simple trust** is naïve, unquestioned, and unchallenged, e.g, the faith of a child. **Blind trust** is taken for granted; it can be foolish and sometimes tragic. **Authentic or basic trust** is that in which the risks and vulnerabilities are understood and distrust is held in balance. Authentic trust, as opposed to simple trust, does not exclude distrust, but accepts it and overcomes it. Authentic trust can be betrayed, but there is no denial or self-deception as in blind trust, or naiveté, as in simple trust.

The readiness to trust another person varies from individual to individual and from situation to situation. Some people enter a new situation with an almost naïve trust, while others have an almost pathological distrust in the same situation

because of their past experiences.

- **Trust is contextual.** Trust is a matter of the culture of shared worlds; we trust persons who share our cultural values (Rousseau et al., 1998).

For example, a study of 255 international alliances found that trust plays a stronger role when the alliance is younger, risk is symmetrical, market is less volatile, and inter-partner dependence and commitment is higher. A study of 2,718 Sino-West JVs in China by Li et al. (2002) found that cultural diversity and cultural distance have significant influences in JV behaviors.

- **Trust is reciprocal.** Trust in a person obligates the other to reciprocate. Lab studies show that people disclose more to another person who discloses more about self (Worchel & Austin, 1986). Hardin (1993) points to three things that are key to how trust works:

1. The persons involved need to have some degree of openness about tasks, problems or related issues.
2. The persons need to have some mutual expectations or interdependencies that involve some degree of reciprocal obligation.
3. The persons have to feel that there is a safe comfort zone regarding risk.

- **Trust is fragile and evolves over time.** Trust is easier to maintain than it is to create, and is never hard to destroy (Baier, 1986). Trust is an attitude that is modified in the course of social relations. A few IOR studies illustrate this.

1. A longitudinal study of an R&D in JV from initiation to termination found periodic sequences of divergence and convergence in relations. While stable relationships maintain equilibrium over time, divergence can lead to termination of the JV (Buchel, 2002). Bell et al. (2002) found that while violations of ability, integrity, and benevolence all contributed to trust reduction, early violations of trustee benevolence sensitized parties and contributed importantly to trust deterioration.
2. A longitudinal case study of an IOR by Arino and de la Torre (1998) found that partners' assessments cause them to either engage in renegotiation of the terms of the contract, or to modify their behavior unilaterally in an attempt to restore balance to the relationship. Procedural issues are critical from the start in fostering a climate for positive reinforcement and building of trust and confidence.

- **Our understanding of trust is also evolving.** Scholars have defined and examined trust in terms of behavior, cognition, emotion, and faith. This coincides with the history of management thought, which can be viewed as a progressive quest to understand increasingly complex human and organizational phenomena.

- Management theorizing in the 1950's and 1960's emphasized behavioralism, which was useful for explaining observable phenomena. For example, we can observe whether a person is trustworthy by observing whether the person cheats, steals, or lies. Fool me once, shame on you! Fool me twice, shame on me!
- The cognitive turn in the social sciences during the 1970's to 1980's was useful for explaining intentions, rational thinking (strategy) and sensemaking. For example, a person is trustworthy if his/her intentions are honorable, other-regarding, and fair.
- But behavior and cognition have their limits in explaining irrational or aberrant events and situations. As a result, in the 1990's scholars began to turn to emotion, affect and moods in people to explain irrational and impulsive psychotic behavior, such as envy, love, hate, and greed.
- But inexplicable phenomena remain. Some situations and events that occur in human and organizational relationships cannot be adequately explained on the basis of behavior, cognition, or emotion. Recently, some management scholars have begun to take their cue from religion to appreciate that in the final analysis humans rely on faith to reconcile inexplicable events that are beyond their control and to which they are vulnerable.

As with the evolution of management theorizing, our understanding of trust as a multidimensional concept is evolving to incorporate behavioral, cognitive, emotional, and faith dimensions – each dimension addresses situations and events in relationships that cannot be explained by the other.

### **The Appeal of Trust**

As I mentioned in my introduction, there are many social, empirical, and theoretical reasons for why trust is important and appealing.

**Socially**, trust is the glue that bonds interpersonal and interorganizational relationships. Trust is confidence in the good will of others when you are vulnerable. People need the security of expecting certain behaviors of others under conditions of uncertainty and interdependence.

**Empirically**, many studies have shown that trust has a number of important direct and indirect benefits for organizations and their members.

- The direct effects of trust on organizations include greater flexibility, open communication, creative conflict management, negotiation processes, learning and knowledge sharing, satisfaction, and performance. (Dirks & Ferrin, 2001) .
- Research has found that trust also has a number of indirect effects by enabling conditions -- such as positive interpretations of another's behavior, procedural justice, and commitment -- that are conducive to obtaining cooperation and higher performance (Dirks & Ferrin, 2001).

**Theoretically**, trust is an important principle for organizing (McEvily, Perrone & Zaheer, 2003). Organizing principles represent a way of solving the problem of interdependence

and uncertainty in coordinating efforts to achieve goals among parties whose interests and goals may not be aligned.

- Just as price serves as the organizing principle for market transactions, and authority is the organizing principle for hierarchy, McEvily, Perrone and Zaheer (2003) argue that trust is the organizing principle whenever actors are simultaneously dependent on and vulnerable to the actions and decisions of others.
- Trust frequently operates in conjunction with other organizing principles. For example, while price works for market exchange, and authority provides an organizing principle for behaviors that can be observed and controlled, trust is important when behavior cannot be observed or controlled and performance is ambiguous. Trust in fact is a basic necessity for virtually all forms of exchange (Arrow, 1974).
- Trust increases efficiency by decreasing the need for establishing and enforcing costly governance structures. Trust promotes flexibility while hierarchical governance structures often inhibit flexibility. It also enhances social bonds of personal belonging and social attachments (Granovetter, 1985).

#### **Business is increasingly relying on trust as an organizing principle.**

- Relational contracts, outsourcing, strategic alliances, and networks are increasingly becoming the organizational form for doing business that used to be produced within hierarchies and then bought and sold in markets. One important implication of this trend is an increasing reliance on trust as an organizing principle (as noted by McEvily, Perrone & Zaheer, 2003).
- But while cooperative IORs have become a growing form of doing business, noncooperative behavior persists widely (Mudambi & Helper, 1998) in buyer-seller relations, JVs, strategic alliances, and inter-unit relations within and between organizations.
- Being a good partner invites exploitation by partners attempting to maximize their self interests, and such opportunistic behavior undercuts the purposes and performance of relationships, such as learning, knowledge sharing, and other objectives strategic alliances (Larsson et al., 1998).

#### **The Decline of Trust.**

Ironically and unfortunately, while reliance on trust is growing, there is extensive evidence that trust is declining in society and organizations.

Bruhn (2001: 3) describes the many polls and studies showing that trust and its allies – honesty, integrity, and commitment – have been declining in the United States over the past 50 years, as well as in other countries. For example, “a national survey conducted in 1995 by the Washington Post, Harvard University and the Kaiser Family Foundation, found that America is becoming a nation of suspicious strangers, and it is this mistrust of each other that is a major reason Americans have lost confidence in the federal

government and virtually every other major institution – health professions, corporate business, education, churches, and Wall Street (Brossard, 1996). Each succeeding generation that has come of age since the 1950's has been more distrusting of human nature. *Today, nearly two in three Americans believe that that most people can't be trusted; half say most people would cheat others if they had a chance, and half say that most people are looking out for themselves.*"

Numerous reasons for the decline have been offered. Watergate, the Berkeley and Watts riots, the Vietnam War, social and technical change, new configurations of the traditional family, along with generational differences have been pointed out as loosening the social fabric in our society that is resulting in less caring, decreased social support and connectedness, decreased participation as citizens, and therefore, less social capital and trust. These surveys predate the more recent corporate Enron-like scandals, sexual abuse in the Catholic Church, 9/11, terrorism, War in Iraq, AIDS and SARS epidemics, etc.

"Changes in the work environment over the past 2-3 decades have significantly altered how we trust organizations, our bosses and coworkers. In the past there was such a thing as lifetime employment. Corporations assumed responsibility for career development, and employees believed that their employer would act in their best interests. Having experienced massive restructurings, mergers, layoffs, outsourcing, growing wage disparities between executives and workers, excessive greed, employment has become more transactional, and employees know they are expendable" (Bruhn, 2001: 35).

### **What might be done?**

What might be done about this decline in trust when we need it the most? Management scholars have taken three approaches: (1) do nothing, (2) design institutional governance structures to guard people against abuses of trust and deceit with guile, and (3) repair and reconstruct trust within ongoing interpersonal relationships.

**1. Do nothing.** Accept the trends and situations as they are, even though they have become deplorable. *There is a consequence of doing nothing.* According to Bruhn (2001: 33), "At the individual level, a person who follows a life of distrust will find that his/her world is constantly narrowing. Usually chronically distrustful persons become cynical and depressed, and their behavior alienates them from others, leading to further social isolation."

**2. Design and revise formal legal structures** and institutional safeguards to govern parties against the abuses of trust and deceit with guile. This includes re-examining a wide variety institutional practices and policies. For example, consider the consequences of just one contributing factor of distrust – the victims of corporate layoffs, which are being studied by my colleagues Connie Wanberg, Theresa Glomb, Zhaoli Song, and Sara Sorenson (2004).

- They report that there were 8,349 mass layoffs in 2001 in the U.S., which led to 1.7 million individuals losing their jobs (U.S. Dept. of Labor, 2004). Numerous psychological studies have documented the negative impact of job-loss on the physical, mental, and social functioning of unemployed workers and their family members. For example, at the aggregate level, the greater the unemployment rate the greater the mortality rate and mental hospitalization (e.g., Brenner, 1974). At

the individual level, studies have also demonstrated that job loss is associated with increased anxiety, depression, sleeping problems, alcohol disorder, divorce, and child abuse (e.g., Dooley, Fielding & Levi, 1996). Research suggests that job loss has a negative influence on every indicator of mental and physical health (Leana & Feldman, 1992).

- Many years ago Rhinhart Bendix pointed out that the history of business has been to “internalize benefits and externalize costs.” Should companies be allowed to continue to externalize such a huge human cost on individuals and society? Clean air, water, and OSHA Laws prevent companies from polluting our physical environment. Although I don’t have the data, my guess is that costs of corporate abuses of human resources wrought onto society far exceed the costs of those on our physical environment. ***I think it’s time to design institutions and pass laws that curb corporate abuses of degrading our human resources and their resulting pain and health care costs on former employees and society.*** I am thinking of the need for institutional regulations such as those protecting employee pension plans.
- Legal governance structures and institutional safeguards are clearly needed to protect, enable, and constrain behaviors that society values as fair and trustworthy. However, in the final analysis they will never substitute for interpersonal relations. This brings me to my last point about what might be done about the decline of trust.

### **3. Repair and reconstruct trust within ongoing interpersonal relationships.**

- Human beings and their institutions are fallible. No relationship is perfect, and most relationships are not expendable. With their backs against the wall, reasonable people often can and will work out their differences and failings. Even after serious violations, it is possible to reconstruct trust in relationships. Reconstruction can occur when the parties involved believe the relationship is worth salvaging, and they engage in a negotiation process that involves an extended period of time where they assess the violation and the intent of the violator, and they offer an apology and render forgiveness.
- ***The daughter of trust is forgiveness. The study of repair, forgiveness, and reconstruction of relationships should be a high priority of organization and management scholar and practitioners.***
- Bruhn (2001: 30) discusses the act of forgiveness. “Even though it may not be accepted by the other party, forgiveness always makes a difference to the forgiving individual and creates a permanent difference in the relationship, which over time, can lead to full conflict resolution and restoration of the relationship.
- Healing begins with forgiveness (Schneiderman, 1999). Authentic forgiveness includes the following characteristics:
  1. it is unconditional; it is offered to the other person regardless of the response;

2. it is self-regarding as well as altruistic; forgiveness is offered for the well-being of the relationship and requires that the persons break free of old habits and feelings;
3. it does not take place instantaneously; and
4. it is not symmetrical; one party usually instigates the process and becomes the prime mover in restoring the relationship.

Schneiderman notes that if forgiveness is to be an effective intervention, a full conflict resolution is necessary. Forgiveness is a transforming process that empowers the forgiver and forgivee (Kurzynski, 1998).”

### **Conclusion.**

There are compelling reasons for embracing trust as an organizing principle for interpersonal and interorganizational relationships. Trust is confidence in the goodwill of others when you are vulnerable. Like honesty, integrity, and competence, trust is a deeply shared value. It is the glue that bonds relationships and the fabric of our society.

Despite the immense appeal and importance of trust, it is declining in our society and organizations. The increasing rate of social and technical change is producing more temporary, mobile, and impersonal relationships. In addition, human beings and their institutions are fallible. Trust is often easier to breach than it is to build. These conditions repeatedly undermine fragile long-term relationships based on trust.

What should we do about it? Three options were considered:

1. Do nothing. As teachers and researchers, I think this is not a responsible option.
2. Study and design institutional governance structures that may safeguard people against the abuses of trust and deceit with guile.
3. Repair and reconstruct trust within ongoing interpersonal relationships. The daughter of trust is forgiveness. The study of forgiveness, repair, and reconstruction of relationships should be a high priority.

Thank you for your consideration! How was your food? I trust you liked it!

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