

The Role of Public, Relational and Organizational Trust in Economic Affairs

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ABSTRACT

Trust, when established, contributes to the smooth running of political and economic systems which require the success of collective undertakings. Trust must be based on trustworthiness of the actors involved and the reliability of the institutions that are created to provide for the public good. Public trust is low when this is not the case. Even in the realm of business enterprises, market-based transactions, and the world of for-profit entities, trustworthiness and reliability build confidence in those who are the potential clients or consumers. In this paper, we discuss the role of trustworthiness in relations between physicians and their clients as one example of the role of public trust in professionals. We also discuss the role of trustworthiness in the realm of strategic alliances focusing on organizational culture and contractual safeguards as significant determinants of trust formation. We discuss the implications of this research and related work on the potential for increased trust at the relational, organizational and general societal levels in an ever-changing complex, global and interdependent world.

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INTRODUCTION

One of the most significant economists of our time, Kenneth Arrow, argued over three decades ago that trust has implications for the economy as well as the polity. In the current ‘economic crisis’ his words seem prophetic. For Arrow trust has not only economic value but also sheer pragmatic value. It simply makes life easier. Like Luhmann, Arrow viewed trust as an important lubricant of a social system: ‘It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people’s word’ (Arrow, 1974: 23). Note here that the term trust is meant to imply honesty and integrity – that one’s word can be counted on.

Arrow argues that trust not only saves on dyadic transaction costs (the concept Oliver Williamson made famous), it also increases the efficiency of a system. It enables the production of more goods (or more of what a group values if we focus on public goods) at less cost. But it cannot be simply produced on demand and it cannot be bought and sold on the open market, to carry his economic analysis of trust further. In his words, ‘it is not even necessarily very easy for it to be achieved’ (Arrow, 1974: 36). In fact he was not at all sure how it could be produced in societies in which it does not exist. Reflecting a theme that is central to the subsequent work of Frances

Fukuyama (1995), almost two decades later, Arrow argued that one of the properties of those societies classified as less developed economically is the lack of mutual trust (or what Fukuyama and others later came to refer to as generalized trust).

The lack of mutual trust makes collective undertakings difficult, if not impossible, since individuals cannot know if they engage in an action to benefit another that the action will be reciprocated. It is not only the problem of not knowing whom to trust, it is also the problem of having others not know they can trust you. Arrow's discussion of trust and its economic implications is brief, but brings to the surface some of the fundamental problems with treating markets (and prices) as the main mechanism for coordinating the interests of individuals within a society or at least the limits of price as a governance mechanism. The lack of mutual trust, Arrow points out, represents a distinct loss economically as well as a loss in the smooth running of the political system which requires the success of collective undertakings.

The economic value of trust in Arrow's view thus has mainly to do with its role in the production of public goods. Individuals have to occasionally respond to the demands of society even when such demands conflict with their own individual interests. Certainly, trust has been viewed over the decades as central in the solution of what has come to be known as the prisoner's dilemma and by extension many social dilemmas. The two prisoners captured and placed in separate rooms by interrogators must trust each other enough not to turn state's evidence on their partner in crime. If they do, both end up with the worst possible outcomes, mutual conviction. If they maintain mutual trust and remain silent, in the classic version of the prisoner's dilemma, they go free, obtaining the best possible outcome. Without trust, each defects independently sending them both to jail for the maximum amount of time. A long tradition of experimental work in social psychology and

economics provides evidence of the frequent failure of mutual trust under such circumstances (Cook and Cooper, 2003). As Arrow (1974: 26) notes: 'the agreement to trust each other can not be bought'.

PUBLIC TRUST

The work on collective trust, generalized trust and, more recently what is called 'public trust', that followed Arrow's famous essay continues to investigate the role of trust in the provision of public goods and in public life more generally. Without generalized trust many argue that the collective action problems of our day cannot be solved easily. Ostrom and Walker (2003), in their review of the various solutions to collective action problems, provide evidence of this fact. There are many ways in which collective action problems are solved in different contexts, only one of which relies on the assumption that generalized trust works to solve the incentive problems involved. Without public trust many of the institutions that provide the foundations for the smooth functioning of society are weakened if not made wholly ineffective at best. At worst, lack of transparency and perceived incompetence serve as the seedbed of corruption.

Arrow's brief treatment of trust foreshadowed much later discussions of the role of trust in the economy. Perhaps the most widely read in the 1990's was Frances Fukuyama's (1995) major treatise, *Trust: The Social Virtues and the Creation of Prosperity*, on the economic implications of trust. This book investigates the links between social variables such as trust or reliability and various economic outcomes. He goes so far as to argue that there are major cultural differences in economic success that are based on the levels of what he terms general social trust in the societies he considers including, Japan, the United States, China, France, South Korea, Germany, Great Britain, Italy and Russia. He analyzes some of the factors that support such a claim.



If, as Fukuyama argues, the ability of companies to move from large hierarchies to flexible networks of smaller firms depends on the degree of trust and social capital in the broader society, then understanding how trust emerges and how it varies across cultures is important in the effort to analyze what makes for economic success in different settings. Others are concerned less with economic performance and more with the social and political consequences of different levels of trust in various cultures (eg Japan, China, Germany, the emerging capitalist societies in the former Soviet Union and the United States). In the United States, for example, it is sometimes argued that it is the breakdown in community and the trust it fosters that is associated with increased criminal activity, violence and anomie all of which have consequences for economic enterprises in urban areas. Uslaner and Brown (2005) and others have studied the links between general social trust and various indicators of inequality, which has been increasing in the United States as well as in many other countries and has been argued to be at the core of decreasing generalized trust.

Fukuyama (1995) reasons that it is social trust that generates the conditions under which specific forms of organization emerge that facilitate competitive economic enterprise. Arrow (1974) argues that economic productivity is hampered by monitoring and sanctioning, when it is required for managing relations based on distrust. Both arguments are transactions cost arguments. It is the lack of social trust that Fukuyama identifies as the reason that organizations adopt a more hierarchical form (including large networks of organizations created by contracting). The more flexible networks of smaller firms that engage in exchange require trust. In Fukuyama's words (1995: 25): 'A "virtual" firm can have abundant information coming through network wires about its suppliers and contractors. But if

they are all crooks or frauds, dealing with them will remain a costly process involving complex contracts and time-consuming enforcement. Without trust, there will be strong incentive to bring these activities in-house and restore old hierarchies'. Traditional hierarchical forms of governance are thus viewed as inimical to modern global economic activity resulting in lower economic performance.

It is precisely the ability to be flexible and to form networks of small companies that can be responsive to change that Fukuyama identifies as central to economic growth and prosperity. Cultures that fit this motif are poised for economic success in the global economy. Ironically, he argues that it is precisely those cultures with strong and large families that have lower social trust and national prosperity. Fukuyama (1995) refers to this claim as the 'paradox of family values'.

Oliver Williamson views trust as having a much narrower role in the economy, treating trust as largely relevant only in the realm of personal relations and not at all in economic relations that he characterizes as laden with opportunism. His work is at odds with much that has been written on the role of trust in the economy. In some respects Williamson has a more 'romantic' view of trust, wanting to limit the term to the situation in which calculativeness is suspended. For Williamson (1993) the concept trust loses its meaning if it is not restricted to apply exclusively to personal relations. In his view, personal and commercial relations are based on completely different logics involving completely distinct forms of underlying calculus. Other social scientists such as Fukuyama make much broader claims concerning the role of trust in society.

Bradach and Eccles in their *Annual Review of Sociology* article (1989), for example, view trust as one type of control system to be distinguished from price and authority, building upon Arrow's early treatment of governance mechanisms. Reliability and

flexibility are important aspects of business relations and Bradach and Eccles associate these characteristics with trust relations. Especially under uncertainty trust becomes an important determinant of transactions as exchange partners seek out those who are trustworthy and likely to be reliable in continued exchange.

In related experimental literature Yamagishi *et al* (1998), among others, demonstrate that uncertainty leads to commitment among exchange partners as they attempt to avoid opportunism and potential exploitation or defaults. This same phenomenon is called 'relational contracting' in an older literature (cf. Macaulay, 1963). The tendency to form committed relations and to 'lock-in' has some associated opportunity costs since committed exchange partners may not explore new relations that might yield better terms. It is this 'stickiness' to certain partnerships often created by trust and commitment that may have significant effects on economic outcomes, especially if there are fundamental changes in the economy such as may be created by new technologies and new or rapidly expanding markets for trade and production. There is also the tendency to stick with exchange partners under conditions of high economic uncertainty and risk, which may lead to missed opportunities when economic conditions change.

Sociologists and anthropologists who study the economy have come to conclusions similar to those of Arrow concerning the role of trust in economic endeavors. Trust, when it exists, can reduce various kinds of costs, including, but not limited to, transaction costs and the costs of monitoring and sanctioning. Granovetter (1985), for example, views economic relations as one class of social relations. In this view, economic transactions are frequently embedded in social structures that are formed by the social ties among actors. A network of social relations thus represents a kind of 'market' in which goods are bought and sold or bartered. In addition, they set the terms of

exchange sometimes altering the mode of exchange as well as the content of the negotiations. Trust discourages malfeasance and opportunism in part because when transactions are embedded in social relations reputations come into play. Individuals, he argues, have an incentive to be trustworthy to secure the possibility of future transactions. Continuing social relations characterized by trust have the property that they constrain opportunistic behavior because of the value of the association. Hardin's book *Trust and Trustworthiness* (2002, see also Cook *et al.*, 2002) portrays an encapsulated interest theory of trust, which is also based on this logic.

RELATIONAL TRUST

Trust can be defined in relational terms as the belief that the trustee will take one's interests to heart. In the encapsulated interest view of trust articulated in Hardin's (2002) book, *Trust and Trustworthiness* and expanded in Cook *et al.* (2005), A trusts B with respect to x when A believes that her interests are included in B's utility function, so that B values what A desires *because* B wants to maintain good relations with A. Others define trust as the belief that the trustee will not take advantage of one's vulnerability. If I perceive someone as trustworthy, I am less likely to monitor her behavior or performance. In this way, trust reduces the cost of monitoring. It may also reduce transaction costs.

In a study of physician–patient trust Cook *et al.* (2004a) argue that trust is central to the smooth functioning of professional–client relations in the medical world, as well as in other contexts. But the perception of the extent to which physicians, in general, fulfill their fiduciary role to patients at large has clearly declined over the past few decades (Imber, 2008). As Imber notes in his lengthy treatment of trust in doctors, the physician in the early decades was not only a healer, but also a 'man' of integrity.



A good physician was a ‘good man’ who was competent and, importantly, someone who was a person of character and obligation, as immortalized by Hippocrates in what has become the sacred oath that physicians in training take.

One key reason for examining the role of trust in physician–patient relations is to investigate the ways in which trust ‘saves’ not only on transaction costs but, literally, also in terms of reductions in the cost of the delivery of care (eg, a decrease in the duplication of services). Physicians often cited trust in a patient as one factor in their decisions regarding treatment options. In addition, both patients and physicians talked about how trust made it possible for the physician to respond to patient concerns over the phone or by email when they had established a long-term relationship characterized by trust.

Separate from the decline in trust in the ‘profession’ of doctoring, public trust in those who manage and deliver health care has also declined. What we found in our interviews with patients and physicians is that often patients trusted their own personal physicians (especially if they had a longer-term relationship with them) and they sometimes transferred this trust to the group practice level and to the organization in which the practitioners were embedded, but this also depended heavily on the general reputation of the organization. Both past experience and reputation mattered in their assessments of trustworthiness.

In contrast, just one relatively negative experience with a physician in the group led to continued wariness and lack of trust that generalized to the organizational context. While there is no simple way in which dyadic, relational trust transfers to larger units in which the dyad is embedded, it is one path by which trust can be rebuilt when distrust exists. Both physicians and patients talked at length about the ways in which trust could be established through specific

behaviors and about the value of trust for treatment decisions as well as compliance (or adherence to medical regimens). Several patients also spoke eloquently about the ways in which specific physician actions had undermined their trust in all physicians. In such situations it was difficult for these patients to trust any physician. With distrust that has generalized, rebuilding trust at the relational level may be one of the only mechanisms for resolving the underlying trust breach.

It is interesting that individuals often seem to maintain belief in the honesty and trustworthiness of their own physicians even as their confidence in the profession of medicine at large and the leaders in the field have diminished. This is also typically true of evaluations of local politicians in contrast to politicians in general. Organizational mechanisms for ensuring trustworthiness have arisen in part due to this decline in confidence in the profession of medicine (and health care in general). Ironically, the imposition of such mechanisms often undermines trust at the interpersonal level. But, despite the rise of organizational mechanisms for ensuring trustworthiness, trust still has an important role to play in physician–patient relations in which one party is more vulnerable (or less powerful) than the other and monitoring cannot be fully effective. The role of trust, however, has diminished over time as the stakes for malpractice have risen and economic factors have driven a wedge between patients and their physicians increasing the perception that conflicts of interest exist that undermine trust (Mechanic, 1998). This macro-level fact has had negative implications for public trust in the healthcare system (as current news accounts reveal in the most recent efforts to reform the system in the United States).

There is an important distinction between trust in individuals and trust in the organization in which they are embedded, which is based in part on the nature of the roles

individuals play in the organization and the extent to which they fulfill their roles. This is as true of physicians and nurses in the medical context as it is in the business world. Cook *et al.* (2005) discuss the nature of professional associations and the role they play in maintaining the reputation of the profession. The American Medical Association is an example of a proactive professional association that has worked hard to protect the reputation of physicians and their authority over the conditions of practice. At the same time increasing public lack of trust in various professionals, not just doctors but priests, pastors, lawyers and teachers as well, have resulted in increasing organizational controls and monitoring of compliance with professional ethics. When people have little confidence not only in politicians, doctors, and lawyers, but also in business executives who distort stock prices or engage in 'creative', but illegal accounting practices attention shifts to the failure of organizational incentive structures and the relevant regulations to restrain opportunism, sanction the untrustworthy and those who are grossly incompetent.

ORGANIZATIONAL TRUST

Powell (1996) conceives trust as similar to human or moral capital operating distinctly differently than physical forms of capital. The supply of trust, he argues, increases with use rather than decreasing in value. Trust is not depleted in the same way that physical capital is over time when it is used. Powell (1996) identifies a number of types of business networks in which trust plays a role in the organization of economic activity. For example, in research and development networks such as those in Silicon Valley, trust is formed and maintained through professional memberships in relevant associations, a high degree of information flow across the network and by frequent shifting of employees across organizational boundaries. In another example, Powell explores the role

of trust in business groups such as the Japanese keiretsu and the Korean chaebol. In these business groups trust emerges out of a mixture of common membership in the group, perceived obligation and vigilance. Long-term repeat interactions are key to the establishment of trust relations in this context as well as in most circumstances in which trust relations emerge. Repeat interactions provide the opportunity for learning, monitoring, dyadic sanctioning and increasing mutual dependence, which reinforces the basis for trust.

In a study of the garment industry Brian Uzzi (1997) also identifies the nature of the social relations that link economic actors in ways that determine economic performance. Two types of relationships seem to have been common among firms in the manufacturing business, those characterized as close relations and those characterized as arms-length relations. Those connected by 'close' relationships were more likely to be trusting and cooperative, even though the same individuals could be self-interested and businesslike in their arms-length relations. In the close relationships the individuals would more often engage in joint problem solving, transfer finer grained information to one another and generally be more trusting. In contrast, the arms-length relationships were more typically economic relations characterized by lack of reciprocity, less continuity and a focus on narrowly economic matters. Trust developed in relations between manufacturers when extra effort was initially offered voluntarily and then reciprocated, in much the same way that Blau, in his influential book, *Exchange and Power in Social Life*, (1964) suggests that trust emerges in social exchange relations. Uzzi notes that this extra effort might involve giving an exchange partner preferred treatment, offering overtime, or placing an order before it was needed to help a partner during a slow time. Trust relations involved less monitoring.

In other industries sociologists have found that trust relations can sometimes impede economic success. For example, Mizruchi and Stearns (2001) examined the role of trust in the closure of bank deals. Under uncertainty they discovered investment bankers turned to customers they had close ties to, involving trust relations. By engaging in deals with their close friends they were less successful in actually completing deals, thus this practice entailed an economic cost to the banking industry. It may have been that the bankers were unwilling to exercise the same degree of authority over their friends in bringing their deals to close. The latitude one extends a friend in this context thus had a negative impact on the profitability of the banks involved.

Trust between partners in an alliance reduces the need for hierarchical controls (Gulati and Singh, 1998). Higher levels of trust among partners to an alliance results in fewer concerns over opportunism or exploitation because the firms have greater confidence in the predictability and reliability of one another. Alliances between firms that view each other as trustworthy lowers coordination costs improving efficiency in part because the firms are more likely to be willing to learn each other's rules and standard operating procedures. Without such trust hierarchical controls and systems of monitoring and sanctioning are more often put into place to implement the alliance and to ensure success, though frequently increasing the overall cost of the enterprise.

Schilke and Cook (2009) specify one relatively simple model concerning the role of trust in strategic alliances formed between firms primarily for research and development in Germany. They focus on the determinants of trustworthiness. In a recent study data were collected from firms that had been engaged in strategic alliances in various industries including chemicals, electronics, machinery, motor vehicles and information technology. The core firms

were asked to identify some of their key partners and data were then collected from the partner firms to provide dyadic data. Unfortunately, some of the firms in the sample were unwilling to provide the names and identifiers of their partner firms citing confidentiality (as well as strategic) reasons for maintaining the anonymity of their partners in ongoing ventures. The eventual sample of firms included dyadic data from 210 managers. Key informants in the R&D units of each firm provided relevant information on these alliances. The final dyadic sample included data on 167 dyads (after attrition at each stage of the study). Below we identify some of the relevant factors that entered the trustworthiness assessments of these firms.

The two primary elements we examined in terms of assessments of the trustworthiness of alliance partners were organizational culture and level of contractual safeguards. We defined trustworthiness as an attribute of an exchange partner. Conceptually, it refers to the extent to which that partner is viewed as unlikely to exploit any vulnerabilities the other partner has. The typical dimensions of trustworthiness identified in the empirical trust literature include ability (or competence), benevolence and integrity. All three dimensions tend to be a part of trustworthiness judgments. We used scales previously developed for organizations. Ability refers to the competencies of the trustee that enable it to perform relevant tasks effectively. Benevolence refers to the extent to which the trustor wants the trustee to do well. In personal relationships it refers to generosity and the willingness to help the trustee. Integrity is the extent to which one can rely on the word or promise entailed in the trust relationship. It involves the perception on the part of the trustor that the trustee adheres to a set of principles that are known and that imply integrity. All of these dimensions are attributes of the trustee, while trust is typically a characteristic of a relationship between two entities.

In our study, we used measures of ability that were adapted from Johnson *et al.* (1996) and measures of benevolence based on those used by Ganesan (1994) and Scheer *et al.* (2003). The integrity measures were developed based on the work of Dyer and Chu (2003).¹ The key independent variables, organizational culture and contractual safeguards were also measured using items previously developed (or adapted) for the organizational level.

Contractual safeguards are stipulations included in the partnership agreement that impose penalties on a party for non-fulfillment of obligations or expected performance or for failure to cooperate as specified in the agreement (Parkhe, 1993). Organizational culture has many dimensions but we used Barney's (1986) definition, which specifies culture as the complex set of beliefs, values, assumptions and symbols that define the way a firm conducts its business. Cameron and Freeman (1991) conceptualized and operationalized four key types of organizational culture (hierarchy, market, clan and adhocracy). Given that clan culture has been argued to be more closely linked to trust (McEvily *et al.*, 2003: 92) we measured the extent to which the firms in our sample could be characterized as having a clan culture, defined as emphasizing participation, cohesiveness and teamwork.

Control variables included industry type, firm size and firm age, and all factors that may impact the degree to which trustworthiness matters. Moderating variables included familiarity – the extent to which the exchange partners had experience with each other, and reputation – the extent to which the public knew about the firm and their perception of its products and prospects in comparison with competing firms in the industry. Based on previous research, we reasoned that familiarity and reputation would moderate the effect of organizational culture and the presence of contractual safeguards on assessments of trustworthiness.

Both clan culture and contractual safeguards are antecedents of trustworthiness, but their relative importance in the establishment of the trustworthiness of the firm varies by characteristics of the firm (see Schilke and Cook (2009) for more details of the study and the findings). In particular, our research indicates that when familiarity is high between two partner firms, organizational culture is more important as the origin of trustworthiness. In addition, we find that contractual safeguards are more significant understandably when the reputation of the alliance firm is less favorable. Such safeguards may be viewed as increasingly essential in settings, which are more economically volatile. Alliance partners will require it and the public will want such assurance as a precursor to investment decisions (sometimes made with very little information when public trust and confidence in business was much higher).

Under some circumstances research indicates that trust and trustworthiness can improve the workings of organizations and markets. In these instances, however, trust and trustworthiness tend to be *complements* to structured incentives and to monitoring and enforcement mechanisms (see also Arrow, 1974: 24). The backdrop of third party enforcement can give individuals confidence to treat each other as if they are trustworthy at least in those domains where violations of trust will be punished or in which little is at stake. This may enable individuals to learn more about each other, to begin to take risks with each other, and in time to become trustworthy to each other. Examples of third party enforcers abound: Legal institutions that enforce contracts, managers who supervise employee relationships with clients, professional associations that investigate unethical behavior of their members and hospital boards that inhibit malpractice. They not only boost the probability of reliable behaviors but also create the conditions for cooperation and trust.



In an era of decreasing public trust in the world of business such mechanisms may be critical for the reestablishment of confidence and trust, in general, in economic institutions.

In the world of informal economies, Portes and Sensenbrenner (1993) analyze the role of trust in economic outcomes for immigrants to empirically demonstrate the impact of the embeddedness of economic activities in social relations. In particular, trust plays a big role in the informal economy in which immigrants are able to barter and trade services outside of the formal economy with individuals they deem trustworthy in their personal networks. (Such informal economic transaction systems are rapidly growing as a result of the current economic crisis. Trade and barter of personal items and services now occurs over the Internet and is spreading globally – for example, Freecycle.org.) Immigrants also use their social networks as a kind of social capital when they enter a new country to provide access to critical resources such as educational and training opportunities, entry jobs and the provision of food and shelter until they can become established on their own terms. The social networks provide the social capital the immigrants need to get established in a new land. Some of these network ties represent trust relations – others do not; thus, it is important to distinguish between trust and social capital. There are also downsides to the use of social networks for immigrants. Closed networks may result which lock the employees into low-wage jobs with little time to develop the human capital that would be needed to move up and out of the protective environment of their enclave.

In an interesting historical study of the US economy between 1840 and 1920, Lynne Zucker (1986) identified three basic modes of trust production in society. First, there is process-based trust that is tied to a history of past or expected exchange (eg, gift

exchange). Reputations work to support trust-based exchange because past exchange behavior provides accurate information that can easily be disseminated in a network of communal relations. Process-based trust has high information requirements and works best in small societies or organizations. The second type of trust she identifies is characteristic-based trust in which trust is tied to a particular person depending on characteristics such as family background or ethnicity. The third type of trust is institutional-based trust, which ties trustworthiness to formal societal structures that function to support cooperation. Such structures include third party intermediaries and professional associations or other forms of certification that remove risk. Government regulation and legislation also provide the institutional background for cooperation lowering the risk of default or opportunism. High rates of immigration, internal migration and the instability of business enterprises from the mid-1800s to the early 1900s, Zucker argues, disrupted process-based trust relations.

The move to institutional bases for securing trustworthiness was historically inevitable. Studies by Greif *et al.* (1995) and other economic historians of the emergence of various institutional devices for securing cooperation in long-distance trade in much earlier periods support this claim. Such devices seem to be the focus of political and public attention in the current period of economic crisis and the reemergence of instability in businesses including large banking and investment institutions formerly viewed as highly stable and thus worthy of long-term investment. Restoring confidence in these institutions will require a lot of work by politicians as well as those in the business world. It is not at all clear that past mechanisms for ensuring trustworthiness will garner the public trust after such cataclysmic losses and the attendant unemployment that has affected all sectors of the economy.

A number of economists and sociologists seem to agree that trust does play a role in the economy, but precisely how and in what ways is still under investigation. In Susan Shapiro's book, *Wayward Capitalists* (1984) trust is viewed as the foundation of capitalism. Building on the work of Macaulay (1963) and others she argues that financial transactions could not easily occur without trust because most contracts are incomplete. This theme is reflected in much of the work on contracts and is the reason for many alliances and cooperative agreements that build trust between the relevant parties. In significant ways trust can be said to provide the social foundations for economic relations of exchange and production. Monitoring is often ineffective. Sanctioning can be costly. Transactions costs can be high. To the extent that actors are trustworthy with respect to their commitments such costs can be reduced within organizations and in the economy more broadly. But without the institutional backing of contract law and other forms of legal protection few societies rely strictly on the vagaries of personal relations. This seems only to happen when institutional backing is weak or non-existent and when interpersonal relations are the primary locus of exchange (often in developing countries suffering under political instability and corruption). In economies under transition from one major form of economic organization to another, as in the transitions that have occurred in post-communist societies, reliance on personal networks and trust relations can serve an important step in the evolution to systems of trade that require interactions with strangers in the context of market economies. This transition, however, can be highly problematic (Radaev, 2004; Cook *et al.*, 2004b; etc) and can be fraught with risk as in the case of Russia.

Restoring public trust in economic enterprises and in other arenas in society in which trust has declined (eg, the world of professions including doctors, lawyers, priests

and politicians) will not be easy. We have tried to articulate in a few domains how personal relations of trust, organizational level trust and general social trust are linked. But there is more work to be done on this topic, theoretically, methodologically and empirically. Cook *et al.* (2005: 196) argue that 'Societies are essentially evolving away from trust relationships toward externally regulated behavior'. This is in part due to the change in the ways in which we relate to one another. We have evolved over long periods of time away from thick relations of trust and normative control in small communities to larger networks of thin relations of trust and cooperation with many people spread out in geographic space. This has altered the fundamental ways in which business is accomplished and has implications for the potential for trust relations, assessments of trustworthiness and modes of cooperation. It also has implications for the capacity of the public to know enough to 'trust' any institution in the traditional sense. The best we might accomplish is to regain confidence that these institutions are being given proper oversight and that there is legal recourse for those who are the victims of exploitation. A major difficulty is that the scale of business operations has become so complex and inter-related in many sectors that providing such oversight is increasingly complicated, if not impossible. In such a world, public trust in institutions may continue to be fairly low, even though at the personal level (my banker or doctor) or even at the organizational level (my local bank or group medical practice) there may be room for increased trust, given proper organizational incentives. Further research on these complex issues in an increasingly interdependent and global world of economic activity is needed.

NOTE

- 1 All scales were seven-point Likert scales ranging from 1 (strongly disagree) to 7 (strongly agree).



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