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Chapter 3 The Ethics of Corporate Trusting Relations

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Chapter 3

The Ethics of Corporate Trusting Relations

Executive Summary

Building trust and living interpersonal trust are crucial corporate executive virtues that are needed today. Once you have developed and solidified a high level of genuine interpersonal trust with all your stakeholders, especially customers, suppliers, and employees, then you are on the right path of managing and transforming your company. A high level of interpersonal trust between all stakeholders and corporates in a business situation will break down communication barriers, foster serious conversation and sharing of ideas, and will eliminate corporate transactional anxieties of fear, mistrust, guilt, rigidity, blame, and resentment. When stakeholders trust you and you trust them, then you speak freely, they speak freely, and your mutual sustained transparency is a gateway to survival, revival, and sustained corporate recovery and transformation, and steady growth and prosperity. Conversely, when there is low trust, high mistrust, and high distrust among stakeholders in a business situation, communications and conversations are stressed and fragmented, teamwork and team spirit are very low, and the company is heading toward its ruin and extermination. Such is the crucial role of interpersonal trust in business. This chapter explores the crucial phenomenon of corporate interpersonal trust. We review various cases, models, concepts, definitions, and theories of trust from the management literature in general, and from the marketing field in particular, to derive psychological, behavioral, ethical, and moral principles of corporate trust, trusting relations, and trusting strategies.

You can have all the facts and figures, all the supporting evidence, all the endorsement that you want, but if you don't command trust, you won't get anywhere.

Niall Fitzgerald (Former Chairman, Unilever)

You can't have success without trust. The word trust embodies almost everything that you can strive for that will help you to succeed. You tell me any human relationship that works without

trust, whether it is a marriage or a friendship or a social interaction; in the long run, the same thing is true about business, especially businesses that deal with the public.

Jim Burke (former Chairman and CEO, Johnson & Johnson)¹

3.1. Introduction

Trust is one of the most powerful motivations and inspirations. People want to be trusted. They respond to trust. They thrive on trust. Trust is a function of at least two things: character and competence. Character includes ethics, your integrity, your motives, your intentions, and your intent with people. Competence includes your capabilities, your skills, your outcomes or results, and your track record. And both are vital. Character and competence are both necessary. In his bestseller, *The World is Flat*, *New York Times* columnist Thomas Friedman observes that this new “flat” economy is all about partnering and relationships that thrive or die based on trust. “Without trust, there is no open society, because there are not enough police to patrol every opening in an open society. Without trust, there can also be no flat world, because it is trust that allows us to take down walls, remove barriers, and eliminate friction at borders. Trust is essential for a flat world.” Character is a constant; it is necessary for trust in any circumstance. Competence is situational; it depends upon what the circumstance requires.

Most of us do not know how powerful we are in building trust, in changing the level of trust in any relationship, as we do not know how to build trust “from inside-out,” writes Covey (2006, p. 33). The key is in understanding and learning how to navigate in what he calls the “Five Waves of Trust” that starting from within work outwards like a ripple effect. The five waves of trust model serve as a metaphor for how trust operates in our lives. It begins with us individually, continues into our relationships, expands into our organizations, and encompasses our global society at large — this is the “inside-out” paradigm of this model. To build trust with others, we must start with ourselves. The five waves also form a structure for understanding and making trust actionable in our day-to-day family and corporate life.

3.2. The Importance of Trusting Relationships in Business Management

Trust can be defined as the expectation that other people or organizations will act in ways that are fair to us. Mistrust increases when people increasingly view our institutions, public or private, as corrupt, strangers as suspicious, rivals as illegitimate, and facts as negotiable. The share of Americans who say “most people can be trusted” fell from 44% in 1976 to 32% in 2016, according to a survey from the University of Chicago. Lack of faith strains boardroom discussions. In his latest letter to shareholders, Jamie Dimon, CEO of JPMorgan

Chase, described trust as America's "secret sauce" and worried that the bottle was running dry.

Our current mistrust outbreak can be analyzed under two parts: what consumers think, and what firms think. The share of people who have "little or no confidence" in big business has risen from 26% in 1976 to 39% in June 2017, according to Gallup. For banks, it has risen from 10% in 1979 to 28% in 2017. Over decades, big firms have broken implicit promises made to their employees, such as providing a job for life and paying generous pensions. And the financial crisis of 2007–2008 blew a giant hole in mutual trust between global investors and global giant investment banks.

At the same time, the S&P 500 index is near an all-time high, even though many economists say that distrust is toxic for prosperity because transactions become dearer and riskier. An OECD study of 30 economies shows that those with low levels of trust, such as Turkey and Mexico, are far poorer. Three scholars, Luigi Guiso, Paola Sapienza, and Luigi Zingales, have shown that pairs of countries (such as Britain and France) whose populations say they distrust each other have less bilateral trade and investment.

Trust between firms, and between firms and investors, is more resilient, but there is evidence of greater wariness. Banks charge corporate borrowers a spread of 2.6% points above the federal funds rate, compared with 2.0 points in the 20 years before the crisis. The equity risk premium, or the annual excess return that investors demand to hold shares rather than bonds, is 5.03 points, against a pre-crisis average of 3.45 points, notes Aswath Damodaran of the Stern School of Business at NYU (<https://www.economist.com/business/2017/08/10/mistrust-in-america-could-sink-the-economy> on August 10, 2017).

Scholars have seen trust as an essential ingredient for a healthy personality, as a foundation for interpersonal relationships, as a foundation for cooperation, and as a basis for stability in social institutions and markets. Mutual trust between business partners has been found to be very vital in the uncertain, complex, volatile, and fast-paced business environment of today, especially given modern developments of globalization, and strategic global competitive alliances (Prahalad & Hamel, 1994), multicultural and multilingual relations (Cox & Tung, 1997; Sheppard, 1995).

There are many reasons why reciprocal trust among corporate executives and various stakeholders is becoming important in all business transactions. Trust leads to successful relationships and improves communication, cooperation, satisfaction, and purchase intent in a marketing exchange context (Anderson & Narus, 1990; Doney & Cannon, 1997; Morgan & Hunt, 1994). Interpersonal trust can be an important social resource for facilitating cooperation and enabling social interactions between various actors in a business environment (see Coleman, 1988; Zucker, 1986). Trust reduces the need: (1) to suspect and monitor each other's behavior, (2) to formalize monitoring and control procedures, (3) to create completely specified contracts, and thus, (4) can reduce negotiation costs (Powell, 1990).²

3.3. What is Executive Trust?

In recent years, the issue of trust has been seriously discussed in management and marketing literature. The view of trust as a foundation for social order spans many intellectual disciplines and levels of analyses (Lewicki, McAllister, and Bies (1998, p. 438). Understanding why people trust and how trust shapes human relations has been the central focus of theologians, philosophers, psychologists, sociologists, political scientists, economists, anthropologists, and students of organizational behavior and marketing.

According to Lewicki and Bunker (1995), the study of trust may be categorized based on how trust is viewed: as an individual difference, as a characteristic of interpersonal transactions, and as an institutional phenomenon. Specific disciplines have been associated with these three approaches. Thus,

- *Personality psychologists* view trust as an individual characteristic (Rotter, 1967, 1971, 1980).
- *Social psychologists* define trust as an expectation about the behavior of others in transactions, focusing on the contextual factors that enhance or inhibit the development and maintenance of trust (Lewicki & Bunker, 1995, 1996).
- *Economists and sociologists* have focused on trust-building institutions that reduce uncertainty and anxiety (Zucker, 1986).

Each discipline has its own focus and accordingly provides only a partial or incomplete description of trust. McAllister (1995, p. 25) argues for two bases of trust, one (cognition-based trust) grounded in cognitive judgments of the competence of an exchange partner and the second (affect-based trust) founded on affective bonds between exchange partners. Lewicki and Bunker (1995) distinguish three types of trust: calculus-, knowledge-, and identification-based trust, and Sitkin (1995) proposes three others – competency-, benevolence-, and value-based trust. Sirdeshmukh et al. (2002) derive customer trust in the service area from operational competence, operational benevolence, and problem-solving orientation on the part of both frontline employees and management policies and practices that back frontline employees. Mayer, Davis, and Schoorman (1995, p. 712) argue that trust is “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control the other party.” Most organizational scientists (e.g., Granovetter, 1985; Ring & Van de Ven, 1992) view trust as a mechanism that mitigates opportunistic behavior among exchange partners. Rousseau, Sitkin, Burt, and Camerer (1998, p. 395) combine common themes from trust definitions based on sociology, psychology, and economics and define trust as “a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another.”

3.4. Definitions of Trust in the Marketing Literature

Marketing scholars have emphasized different aspects of trust. In an organizational context of trusting, independent marketing researchers, Moorman, Deshpande, and Zaltman (1993, p. 82), define trust “as a willingness to rely on an exchange partner in whom one has confidence.” According to Morgan and Hunt (1994, p. 23), trust exists “when one party has confidence in an exchange partner’s reliability and integrity.” In the context of buyer–seller relations, Doney and Cannon (1997, p. 36) define trust as “the perceived credibility and benevolence of a target of trust.” In the service area, Sirdeshmukh et al. (2002, p. 17) define “consumer trust as the expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises.” An important aspect across all definitions of trust in marketing is the notion of trust as a *belief*, a sentiment, or an expectation about an exchange partner that results from the latter’s competence, credibility, reliability, or intentionality (Ganesan, 1994).

Further, according to Moorman, Zaltman, and Deshpande (1992) and Mishra (1996), vulnerability is an important constituent of trust; in the absence of risk or vulnerability, trust is not necessary, since outcomes are not of consequence to trustors. Sabel (1993, p. 1133) defines: “trust is the mutual confidence that no party to an exchange will exploit the other’s vulnerability.” Ganesan (1994) and Mayer et al. (1995) view trust in conative and behavioral terms. Other marketing researchers use cognitive or evaluative definitions of trust, empirically verifying the link between trust evaluations and behavioral response (Doney & Cannon, 1997; Morgan & Hunt, 1994; Sirdeshmukh et al., 2002).

Further, earlier trust studies in marketing (e.g., Anderson & Narus, 1990; Anderson & Weitz, 1989, 1992; Moorman et al., 1992, 1993; Morgan & Hunt, 1994) have treated trust as a unidimensional construct. However, later studies (e.g., Doney & Cannon, 1997; Ganesan, 1994; Sirdeshmukh et al., 2002) have treated trust as a multidimensional construct; the latter provides greater diagnostic with respect to the effect of trust on long-term or short-term orientation (Ganesan, 1994).

Business literature, in general, and marketing literature, in particular, has advocated for decades the need for customer trust and stakeholder relationships. However, the need has been academically expressed more recently. Some quotes and opinions in this regard are as follows:

- “One of the most salient factors in the effectiveness of our present complex social organization is the willingness of one or more individuals in a social unit to trust others” (Rotter, 1967, p. 651).
- Trust is the “cornerstone of long-term relationships” (Spekman, 1988, p. 79).
- Trust is generally viewed as an essential ingredient for successful relationships (Berry, 1995; Dwyer, Schurr, & Oh, 1987; Moorman et al., 1993; Morgan & Hunt, 1994; Garbarino & Johnson, 1999).

- A central idea in the theory of partnering suggests that differences in trust and commitment are the features that most distinguish customers as partners from customers who are single-transaction buyers (Berry, 1995; Webster, 1992).
- Theories of partnering propose that customers with strong relationships not only have higher levels of trust and commitment, but also that trust and commitment become central in their attitude and belief structures (Morgan & Hunt, 1994).
- In personal selling or retailing what differentiates relational partnerships from functional (or transactional) relationships is the level of trust and commitment to the other party (Levy & Weitz, 1995; Weitz, Castleberry, & Tanner, 1995).
- Customer trust is an essential element in building strong customer relationships and sustainable market share (Urban, Sultan, & Qualls, 2000).
- To “gain the loyalty of customers, you must first gain their trust” (Reichheld & Scheffer, 2000, p. 107).
- The “inherent nature of services, coupled with abundant mistrust in America, positions trust as perhaps the single most powerful relationship marketing tool available to a company” (Berry, 1996, p. 42).

Thus, for instance, there is much focus on mutual trust and trustworthy relationships in marketing, especially in relation to commitment in marketing (Achrol, 1991; Gundlach, Achrol, & Mentzer, 1995; Morgan & Hunt, 1994), and buyer–seller relationships and contracts (Doney & Cannon, 1997; Dwyer et al., 1987). This focus can and should be easily transferred to the discipline of business management. The high levels of trust characteristic of relational exchanges enable exchange partners and stakeholders to focus on long-term benefits of the relationship (Ganesan, 1994), ultimately enhancing competitiveness and reducing transaction costs (Noordewier, John, & Nevin, 1990).

A company representative who proves to be dishonest and unreliable could easily jeopardize long-term relationship with a trusted supplier (Kelly & Schine, 1992). On the other hand, highly trusted salespeople have been found to sustain customer commitment despite management policies that may not always benefit the customer (Schiller, 1992).

Case 3.1: The Tata Group: A Trusted Empire

Founded in 1868 by Jamsetji Nusserwanji Tata who belonged to a family of a long line of Zoroastrian Parsee priests, the Tata Group currently operates as a conglomerate of more than 130 independently run companies (32 of which are traded on stock exchanges), employing over 500,000 people, earning revenues over US\$100 billion (profits over US\$6.2 billion), and controlling assets valued over US\$80 billion in 2011–2012 (Casey, 2014, pp. xvi–xvii). How did Tata transform itself from a family-owned business (which it still is) to one of the most professionally and ethically managed successful enterprises of the world?

The dominant moral guiding principle for everyone at Tata is sharing wealth and opportunity. A highly diversified multinational mega-enterprise, humanistic and philanthropic at its core, the Tata Group shares vision, mission, power, and profits with customers, employees, shareholders, and in the societies in which they live and work. A business phenomenon as highly moral as it is profitable, with enviably high nobility of purpose and principle, and one which weathered toughest of domestic and global economic storms, financial crises, and political chaos as it did through more than 150 years of its existence, the Tata Group stands out as a beacon of light despite our cynical age, corporate and political greed, and ever-increasing income and opportunity inequalities (Casey, 2014, pp. xix–xx). It is a triumph of socialism amidst capitalism, honest transparency amidst exploiting market opacities, and sharing-caring commitment. The Tata companies persistently strive to better ethics and business practices in the whole wide world that otherwise consistently seeks to indulge in fraud, corruption, and chicanery.

In every sense of the word, the Tata House and Tata Trust represent a veritable triumph of social capitalism. Tata Sons is the umbrella holding company weaving the conglomerates together. Social capitalism creates value and wealth for all – shareholders, employees, customers and humankind itself. Two-thirds of Tata is owned by philanthropic trusts (Tata is one of the biggest charities in the world) – this is socialism. TCS, the largest company in India as measured by market capitalization, is the largest member of the Tata Group; Tata Steel is the fifth largest steel company in the world; Tata Motors (originally Tata Engineering and Locomotive Co. or TELCO, now known as Tata Motors) has expanded significantly of late with major acquisitions such as Jaguar and Land Rover, while pioneering its own new models, including the Nano. Tata Tetley is the second largest tea producer in the world; Tata is the biggest industrial-sector employer in the UK, and Tata Power is India's largest private-sector power supplier – this is capitalism. Combine the two, true socialism and successful capitalism, and you have the triumph of social capitalism. Tata has been highly successful for over 150 years in terms of increasing revenues, market share, profitability, market capitalization, growth, and prosperity – a highly diversified conglomerate and the world's largest philanthropic. Tata thrives because of its four major stakeholders – shareholders, employees, customers, and the society, the *fourth stakeholder* and the largest among the four (Casey, 2014, p. xviii).

Great philanthropists have dotted the developed world – Andrew Carnegie, John D. Rockefeller, J. P. Morgan, Warren Buffet, and Bill Gates to name a few from USA. To most of these, philanthropy was an afterthought – that is, after accumulating wealth for decades, they built great foundations or endowments to help found educational trusts or charitable institutions. But for the Tata Group, philanthropy was not an afterthought, but a concurrent strategy and a driving thought. The companies the Tata Group established were built for the express purpose of empowering the customers, employees, shareholders, and especially to lift the

needy societies of the times they lived in. Jamsetji Tata, right from the very first company he built in 1869 made it to be bigger and better, big and good enough to make a difference in the life of India. “In a free enterprise the community is not just another stakeholder in business, but is in fact the very purpose of its existence” (cited in Graham, 2010).

As early as 1892, Jamsetji endowed an educational scholarship fund to enable deserving Indian students study abroad in some of the world’s best universities. By 1924, some 20% of all Indian Civil Service (ICS) employees had been beneficiaries of the Tata endowment. But Jamsetji had already planned to start world-class educational institutions in India to leverage local talent. To this effect in 1898, Jamsetji donated nearly half of his fortune amounting to some 10 million rupees (today around US\$140 million) – 14 buildings and four other properties in Bombay – for a university dedicated to science. The result was the Indian Institute of Science in Bangalore, approved only in 1909, and started in 1911, seven years after Jamsetji’s death. Another grand initiative of Jamsetji that he realized during his lifetime was the magnificent Taj Mahal Hotel in Bombay, pioneered and built against all opposition in 1903, with an investment of some 42 million rupees (about US\$176 million today). This was a luxurious elegant hotel, the best of its kind in India then as it is now, the first building in Bombay with electricity that ran USA electric fans, German-made elevators, Turkish baths, and English butlers. The Taj featured the first-ever licensed bar, the first restaurant serving meals all day, and India’s first nightclub. It soon became the pride of India, and the most preferred hotel among foreign kings and queens, nobilities and aristocracies, presidents and ambassadors, business tycoons, and domestic dignitaries. Even though attacked by terrorists in 2008, the Taj has been restored to full splendor to this day.

The Tata Ethics Culture is best expressed by Jamsetji Tata in a speech of 1895 when he opened the Empress Mills in Bombay: “We do not claim to be more unselfish, more generous and more philanthropic than other people. But we think we started on sound and straightforward business principles, considering the interests of the shareholders our own, and health and welfare of the employees the sure foundation of our prosperity” (The quotable Jamsetji Tata, March 2008, <http://www.tata.com/aboutus/articlesinside/>).

The Tata Family

Jamsetji Nusserwanji Tata (1839–1904) was born March 3, 1839, the only son of the five children born to a Zoroastrian priest Nusserwanji Tata and his wife Jeevanbai, in Navsari, one of the oldest cities of Gujarat, India. The Parsees sought asylum in Gujarat when persecuted in their own homeland of Persia, and the then King of Gujarat assigned Navsari to them around 1200 AD for their camping. The Parsees made Navsari their center of religion, culture, and learning. Nusserwanji Tata was the first priest to break with

tradition and became a banker and an entrepreneur instead. Like his father, Jamsetji also chose a business career and at 14 joined his father in trading, then operating in Bombay. Jamsetji, however, also studied in Elphinstone College, graduated in 1858, and while a student married Hirabai Daboo, who gave him two sons, Dorabji and Ratanji. While graduating at Elphinstone, Jamsetji lived through the turbulence of the Indian Rebellion in 1857.

Soon after graduation, Jamsetji was engrossed in his father's trading business and quickly studied the dynamics of trading, banking, and the markets. Subsequently, he travelled through UK, Europe, and USA that broadened his education and opened his business visions to vast opportunities in India. Jamsetji founded his own trading company in 1868 when he was barely 29, and started another in 1869. His tours in England had exposed Jamsetji to the stagnant textile mills. He bought a bankrupt oil mill in Chinchpokli on the outskirts of Bombay, converted it to cotton production naming it Alexandra Mill, and turned it around and sold it two years later. He invested the profits into new business ventures. He dared to think different: his next venture was the cotton country of Nagpur, some 800 km far away from the bustling city of Bombay. There, in 1877, he opened the Central India Spinning, Weaving and Manufacturing Company, later named Empress Mills, after Queen Victoria who was just then installed empress of India. He created a pension fund (1886 Provident Fund) at Empress Mills and an accident fund (1895 Accident Compensation Fund), both rare even in the West during that period.

In 1902, Jamsetji drew elaborate plans for creating a truly modern industrial town – a town that would attract, develop, and retain the best and brightest steel workers and engineers for the Tata Iron and Steel Company or TISCO he would found in 1904 in Sakchi, Jamshedpur. The town planned for wide streets planted with shady trees, plenty of space for lawns and gardens and parks, large areas for football and hockey fields as well; in a spirit of promoting their faith, Jamsetji even provided for the building of Hindu Temples, Islamic Mosques, and Christian Churches. He recognized the importance of building a religious and social community to support the industrial community. Sadly, Jamsetji died on May 19, 1904, while traveling in Germany on work, much before he would see TISCO and the planned city completed. He was 65. His son Dorabji Tata oversaw the completion of the construction, and on May 25, 1907, TISCO was formally founded and inaugurated, and the first steel ingot was produced in 1912. In 1919, Lord Chelmsford renamed the city Jamshedpur in honor of Jamsetji Tata. By 1939, Tata was operating the biggest steel mill in the British Empire. Now TISCO or Tata Steel operates in 26 countries and is the fifth largest steelmaker in the world.

Jamsetji's second industrial goal was to build a vast hydroelectric plant. In the early 1990s in India, factories and mills relied exclusively on coal for energy, a high-cost nonrenewable source. An alternative source like hydro

would not only be more eco-friendly, but spelt better economies of scale for industrial growth and expansion. He harvested the monsoon flood waters of the Roha River that were being wasted each year flowing from the Western Ghats into Bombay harbor, and harnessed them to generate power – the Tata Hydro-Electric Power Company was established in 1910, about five years after Jamsetji's death. Today, Tata Power is the largest private-sector electricity generating company in India, providing around 4% of the nation's electric power.

Reflections

- (1) From the above story of the Tata Group judge what makes the conglomerate a most trusted institution today?
- (2) How did Jamsetji Tata instill trust in the best of engineers and other support professionals that he lured to a then far-away town such as Jamshedpur in the early 1880s?
- (3) Does the proposition that the Tata Group represents the triumph of social capitalism assure its trustworthiness among all its stakeholders, and why?
- (4) How will you use your organization to build institutional trust in your charges and why?

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Case 3.2: How Organized Online Marketing and Kirana Shops Support and Trust Each Other

In 2006, when large retail giants in India such as Reliance Industries, Future Group, the Aditya Birla Group, and others invested Rs 40,000 crore (then US\$10 billion) to expand organized retailing, there was strong sentiment that this project would kill the neighborhood *kiranas*. Today in 2015, barely nine years later, the opposite has happened: the retail giants seem to empower the *kiranas* to survive, blossom, and prosper. Neighborhood *kirana* stores know their customers like none. Giant retailers like Amazon.com, Brand, Brand Factory, Pantaloons, and City Bazaar have now learnt that partnering with them is their best bet. Jeff Bezos, the founder of Amazon.com, wants to use the *kirana* network, earlier seen as competition, to grow retail sales. His

target is to bring India's 5,000 *kiranas* under Amazon umbrella within two years. His *kirana* business model is simple: the *kirana* store earns Rs 20 for every package delivered to the customer's doorstep and Rs 15 for every packet picked up by the customer from his store.

Bhuvaneshwari Rice Shop, founded in 2012, is a 500 square foot *kirana* store of Madan Mohan Reddy, age 21, of Bangalore. He works hard over 17 hours a day and makes around Rs 50,000 a month. He is a tech-savvy graduate, ambitious, and uses a large smartphone. A digital literate, he knows about products such as the mobile wallet and is open to cash-on-delivery to win new customers. Some 18 months ago, January 2014, Amazon.com, the US\$89 billion online retail giant, began its "I Have Space" (IHS) program using the street corner mom & pop *kirana* network to deliver products to Amazon customers. Reddy saw his future instantly, made a phone call, and registered as a delivery partner. Rest is history. He provided his PAN card details to Amazon.com, and the latter gave him a Samsung tablet and a palm-sized credit card payment device to connect the payments to Amazon's seller app and the cloud server on the backend. Reddy has not looked back since. Because of Amazon.com, he has extra reach and more customers. His sales have increased by Rs 20,000 per month and he makes an additional Rs 15,000 by delivering products ordered on Amazon at his store. When customers come to his store to pick up their Amazon.com orders, they buy products and services from his stores. Moreover, when he began delivering Amazon products doorstep to some of his loyal customers, they asked him if he would deliver groceries too. Madan earns currently Rs 85,000 a month.³

Madan's success story is infectious. The Amazon IHS program is catching on in Bangalore and will be scaled up in other major cities of India. This recent *kirana* attention is "because the *kiranas* know the customer better than anybody and their services add more value to our customer service experience," says Amit Agarwal, Managing Director of Amazon India. The *kiranas* may know the customer more, but do not capture that information, while Amazon can use this data mine for advantage.

Kiranas are also hubs for booking rail, air, and bus tickets along with centers for filling up passport and tax forms and mobile recharge vouchers to supplement their revenue. Over the years, *kiranas* have widened their services to include selling apparel, mobile repairs, and ironing clothes. Reports by CRISIL and Ernst & Young estimate the total number of *kiranas* in India at 12-million outlets and they clearly seem to dominate the US\$550 billion retail market. The organized retail sector accounts for less than 8% of Indian retail sales, and this share has crept up only by 3% during the last 10 years. If you can't beat them, join them, is the current Amazon strategy. While Flipkart and Snapdeal have not made the *kirana* partnership their immediate agenda, Kishore Biyani's US\$3 billion Future Group is committed to learning from and linking with the *kiranas*.

Ethical Questions

- (1) Retailing is a buyer–seller trust-building game. As an organized retailer executive, how do you plan and strategize building the trusting brand community of suppliers and customers?
- (2) As a middleman between brands suppliers and highly brand-conscious customers, what vulnerabilities do you foresee on both sides, and how do you plan on working around such vulnerabilities?
- (3) Sophisticated organized retailing today needs highly specialized talent of informed and problem-solving salesmanship and building lifetime loyalties among major target markets – how will you recruit, train, develop, and retain such sales force retailing talent, and all these with high principled ethics?
- (4) Taxation still favors small businesses in India; moreover, regulations restrict real estate purchases, especially agricultural land for safeguarding backward integration of food production and logistics. In this context, how will you build trusting relationships with government authorities and regulations enforcement people?
- (5) As a corporate retailing executive in India, how would you empower organized retailing by building trusting relationships, and even with competition?
- (6) As a corporate organized retailing executive in India, how would you design and build a win–win partnership by building trusting relationships with the immense 12-million *kirana* network in India? What will be its ethical ramifications?

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3.5. The Ethics of Executive Trust

“Hire well, manage little,” affirms Warren Buffett. He builds trust and relies on trusting relationships. His model of extreme decentralization would not work unless he trusted the operating managers, and they delivered. A notable fact is that nobody at Berkshire Hathaway is awarded stock options. Having hired well, Buffett limits his interactions with his CEOs to the minimal, only to get involved in capital expenditure (CAPEX) decisions. He allows 100% operating freedom to his managers, with full expectation that they will be conscientious. This tightrope walk has ensured that Berkshire has never lost a CEO to competition in all these decades. It also demonstrates the fiduciary responsibility that is ingrained in the Berkshire culture. In May 2009, when the world was barely merging out of the credit crisis, Warren Buffett’s partner Charlie Munger said something fundamental about Berkshire Hathaway that resonated with the 35,000 people present at the annual meeting: “Our model is a seamless web of trust that’s deserved on both sides. That’s what we are aiming for. The Hollywood model, where everyone has a contract and no trust is deserved on either side, is not what we want at all.” Warren Buffett added: “We don’t want relationships that are based on contracts.” It is this seamless web of deserved trust that is unique to Berkshire (see Mahalakshmi & Padmashali (2015). 50 Master Moves that Shaped Berkshire Hathaway. *Outlook Business, Special Issue*, India, June 12, pp. 38, 40).

Franklin Covey said that trust is a combination of character and competence. Most executives work on improving their competence, almost forgetting that building their character has far greater impact on people around them than their skill sets. “Organizations and leaders high on competence but low on character will not survive in the long run” said Shivkumar, Chairman and CEO of PepsiCo India Holdings Pvt. Ltd, in his recent *JRD Tata Ethics Oration*, XLRI, Jamshedpur, Jharkhand, India. He added, “Trust in a leader generates confidence and optimism in every sphere. Trust in a leader builds a powerful ecosystem” (Shivkumar, 2014, p. 5).

Building trust and living interpersonal trust are crucial corporate executive virtues that are needed today. Once you have developed and solidified a high level of genuine interpersonal trust with all your stakeholders, especially employees and customers, then you are on the right path of managing and transforming your company. A high level of interpersonal trust between all stakeholders and you in a business situation will break down communication barriers, foster serious conversation and sharing of ideas, and will eliminate anxieties, fear, guilt, rigidity, blame, and resentment. When your stakeholders trust you and you trust them, then you speak freely, they speak freely, and your mutual sustained transparency is a gateway to survival, revival, and sustained corporate recovery and transformation. The informal and transparent communication networks that you establish between all concerned parties will hoist and empower the company for steady growth and prosperity. Conversely, when there is low trust, high mistrust, and high distrust among stakeholders in a business situation, communications and conversations are stressed and fragmented, teamwork and team spirit are very low, and the company is heading toward its ruin and extermination.

Such is the crucial role of interpersonal trust in business. This chapter explores the phenomenon of corporate interpersonal trust.

Human beings are naturally predisposed to trust. It is a survival mechanism (i.e., it is in our genes and childhood and adolescent learning) that has served our species quite well. Our willingness to trust, however, can get us into trouble, especially when we trust too readily and have difficulty distinguishing trustworthy people from untrustworthy ones. In the wake of massive and pervasive abuses of trust (e.g., Enron, Tyco, WorldCom, AIG, Washington Mutual, Fannie May, Freddie Mack, Bernie Madoff, and all other new corporate scandals that surface each day), social psychologist Roderick Kramer suggests that we rethink trust today. Maybe we trust poorly, or trust too readily. At a general or species level, this may not matter very much as long as there are more trustworthy people than not. Nevertheless, at the individual level, it can be a real problem. We could be very vulnerable. To survive as individuals, we must learn to trust wisely or temperately (Kramer, 2009).

Mutual trust is a symbiotic relationship — leaders must first trust others before others will trust them. Building trust takes time, courage, and consistency, but the results and rewards are an unimpeded flow of intelligence. Good leaders do not want yes-people around them; they want everyone to tell the truth even though it may cost them jobs. Exemplary leaders encourage, and even reward, openness and dissent. Dissent may make you briefly uncomfortable, but better information (via dissent) helps you to make better decisions. Good leaders, moreover, admit mistakes. Admitting your mistakes not only disarms your critics but also encourages your employees to own up to their own failings. Speaking truth to power (e.g., to a boss) requires both a willing listener and a courageous speaker. It took tremendous courage for Sharron Watkins, an Enron senior employee, to confront Jeffrey Skilling with the facts of the company's financial deception (O'Toole & Bennis, 2009).

If trust facilitates informal cooperation and reduces negotiation costs, then it is invaluable to corporate and business organizations that depend upon professional people, cross-functional teams, interdepartmental synergies, skilled work groups, and other cooperative structures to coordinate business treatment (see Creed & Miles, 1996; Powell, 1990; Ring & Van de Ven, 1992). The best device for creating trust between business executives and stakeholders is to establish and support trustworthiness of both parties (Hardin, 1996). Building trustworthy relationships by habitually discharging mutual obligations between parties to transactions can mitigate the risk of opportunism on the part of both parties and forestall costly legal battles and the consequences of expensive fraudulent insurance premiums (see Whitener, Brodt, Korsgaard, & Werner, 1998).

Trust is one thing that changes everything in an organization. All things are rooted in trust. While ethics is fundamentally important and necessary, it is absolutely insufficient. Trust is hard, measurable, and impacts everything else in relationships, organizations, markets, and societies. Financial success comes from success in the marketplace, and success in the marketplace comes from success in the workplace, and the heart of all success is trust. Trust is the ultimate root and source of our influence. Low trust causes friction, whether it is caused by unethical behavior or by ethical but incompetent behavior (because

even good intentions can never take the place of bad judgment). Low trust is the greatest cost in life and in organizations, including families. Low trust creates hidden agendas, politics, interpersonal conflict, interdepartmental rivalries, win–lose thinking, defensive and protective communication – all of which reduce the speed of trust. Low trust slows everything, every decision, every communication, and every relationship (Covey, 2006, pp. xxiv–xxv).

Simply stated, trust means confidence. The opposite of trust – mistrust – is suspicion. When you trust people, you have confidence in them – in their integrity and in their abilities. When you mistrust people, you are suspicious of them – their integrity, their agenda, their capabilities, or their track record. “The moment there is suspicion about a person’s motives, everything he does becomes tainted,” Mahatma Gandhi. But when you begin to trust people in an organization, everything begins to change – you increase speed of decision and actions, you lower cost, you increase sales, you increase profits and growth – you improve results in all areas. The speed of trust affects the speed of the marketplace you control. On the contrary, low trust (i.e., bad relationships) slows everything (Covey, 2006, p. 9).

Before we trust others, do we trust ourselves? If we cannot trust ourselves, we will have a hard time trusting others. This personal incongruence is often the source of our suspicion of others. We judge ourselves by our intentions and others by their behavior. Hence, the fastest way to restore trust is to make and keep commitments – even very small commitments – to ourselves and to others (Covey, 2006, pp. 12–13).

3.6. The Economics of Trust: Low Trust Tax

“Mistrust doubles the cost of doing business” (John Whitney, Columbia Business School). “Widespread distrust in a society [...] imposes a kind of tax on all forms of economic activity, a tax that high-trust societies do not have to pay” (Francis Fukuyama: *Trust*) (cited in Covey, 2006). When trust is high, speed of decisions goes up, and costs go down. Consider the following cases:

Case 3.3: Warren Buffett, CEO of Berkshire Hathaway

Warren Buffett, CEO of Berkshire Hathaway, in 2004 completed a major acquisition of McLane Distribution (a \$23 billion company) from Walmart. Both companies as listed public corporations were subject to all kinds of market and regulatory scrutiny. Typically, a major merger of this size would mean “due diligence” by lawyers, auditing by auditors and accountants to verify mountains of information. But in this case both parties had high trust with each other, and a deal was made in less than two hours, and the deal was cleared and completed in less than a month. In a management letter that accompanied his 2004 annual report, Warren Buffet wrote: “We did no ‘due diligence.’ We knew everything would be exactly as Wal-Mart said it would be – and it was.” High trust is high speed, low cost.

Case 3.4: Herb Kelleher, Chairman and CEO of Southwest Airlines

Herb Kelleher, chairman and CEO of Southwest Airlines, is another example of great trust. Walking down the hall one day, Gary Barron, then executive VP of the \$700 million maintenance organization for all Southwest, presented a three-page summary memo to Kelleher outlining a proposal for a massive reorganization. On the spot, Kelleher read the memo, asked one question that Baron responded satisfactorily, and Kelleher concluded: "Then it's fine with me. Go ahead." The whole interaction took about four minutes. Kelleher was a trusted leader, and he also extended trust to others. He trusted Baron's character and his competence. The deal moved with incredible speed. High trust is high speed, low cost. Low trust is a tax, while high trust is a dividend (Covey, 2006).

According to a study by Warwick Business School in the UK, outsourcing contracts that are managed based on trust rather than on stringent agreements and penalties are more likely to lead to trust dividends for both parties — as much as 40% of a total value of a contract. High trust is high speed, low cost. "Trust is something you can do something about, and probably much faster than you think. [...] Nothing is as fast as the speed of trust. Nothing is as fulfilling as a relationship of trust. Nothing is as inspiring as an offering of trust. Nothing is as profitable as the economics of trust. Nothing has more influence than a reputation of trust. Trust truly is the one thing that changes everything. And there has never been a more vital time for people to establish, restore, and extend trust at all levels than in today's global society" Covey (2006, p. 26).

Unlike the myth that trust is a soft, emotional concept and fuzzy, executive trust is a hard, measurable, and quantifiable concept, construct and strategy that affect speed and cost of corporate operations. Unlike the myth that trust is slow and slowing operations, nothing is as fast as the speed of trust. Trust can leverage any strategic advantage. Trust is a function of integrity (ethics and character) and competence (skills, expertise). You can create trust when absent or destroy when present. It is up to you to build trust in you and in your organization. Though difficult, in most cases you can restore trust. Not all trust is inherited. When not inherited it can be nurtured, cultivated, taught, and learned. Not trusting people is a greater risk and more vulnerable (See Covey, 2006, p. 25).

3.7. How Does Trust Work?

In his book, Covey (2006, *Speed of Trust*, p. 34ff) speaks about five waves of trust from inside-out.

- (1) **The first wave is self-trust: Credibility:** self-trust is confidence we have in ourselves, in our ability to set and achieve goals, to keep commitments, and the like. The major questions that arise are: How credible am I? How believable

am I? A good and strong character with high competence of credibility, judgment, and influence deserves and attracts trust from others.

- (2) **The second wave: Relationship trust:** consistent behavior. Covey prescribes thirteen behaviors crucial to high-trust leaders around the world: e.g., talk straight, demonstrate respect, create transparency, right wrongs, show loyalty, deliver results, get better, confront reality, clarify expectations, be accountable, listen first, keep commitments, and extend trust. Major executive questions, he suggests, are: How do you establish and increase “trust accounts” with others? Exercise the 13 behaviors: they can be learned, cultivated, and acquired by any individual at any level within an organization, including the family. The net result is significantly increased ability to generate trust with all stakeholders.
- (3) **The third wave: Organizational trust:** align your character and competence to organization’s systems, symbols, and structures that promote trust or reduce mistrust, and ask: How do you build, sustain, and enhance trust in organizations such as family, schools, colleges, workplace, office, boardroom, corporation, governments, church, clubs, and associations?
- (4) **The fourth wave: Market trust:** reputation states that brands powerfully affect customer behavior and loyalty. Customers always refer, buy, and patronize high-trusted brands. Hence the questions: How can your personal brand (reputation) and that of the company reflect the trust of customers, suppliers, investors, and local and national communities?
- (5) **The last and the fifth wave is societal trust that spells:** Contribution. By contributing or “giving back” we counteract suspicion, cynicism, and low-trust inheritance taxes within our society. Relevant questions are: How can our “contributions” create value for others and for society at large? How can we inspire others to create value and contribute as well?

3.8. Building Trusting Relationships

Based on reviews of interpersonal trust literature, and as applied to the business executive-stakeholder context, we define trust under three facets (Whitener et al., 1998, p. 513):

- (1) A stakeholder’s trust in another party such as a business or corporate executive reflects an *expectation* or belief that the other party will behave benevolently, competently, honestly, and predictably.
- (2) The stakeholder cannot control or force the business or corporate executive to fulfill this expectation, and thus, trust involves a *willingness to be vulnerable* and a *risk* that the executives may not fulfill that expectation.
- (3) Thus, stakeholder trust involves some level of *dependency* on the business/corporate executive, and hence, stakeholder satisfaction (as an outcome) in a business situation will be influenced by the actions of the business/corporate executives.

Defined thus, stakeholder trust is an *attitude* (see Fishbein & Ajzen, 1975; Robinson, 1996) held by the stakeholder toward the business executive. This attitude derives from the stakeholder's perceptions, beliefs, and attributions about the business executive, and these, in turn, are based upon stakeholder's knowledge and observations of the business executive.

3.9. The Biochemistry of Human Trust

Thanks to our large brain, humans are born physically powerless and highly dependent on caretakers (See Kramer, 2009, p. 70–73). Thus, we enter the world “hardwired” to make social connections. For instance, within an hour of its birth, the baby will draw her head back to look into the eyes and the face of the person gazing at her. Within a few more hours, the infant will orient her head in the direction of the mother's voice. Within a few more hours, the baby can actually mimic a caretaker's expressions and keep on exchanging mimics. In short, we are social beings socially hardwired from our birth. Scientists now consider the nurturing qualities of life – the parent–child bonding and mutual exchanges between caretakers – as the critical attributes that drive brain development. Serious lack of nurturing bonding may even impair brain development. This partly explains the success of the human species in terms of survival. We are born to be engaged and to engage others, which is what trust is largely about. The natural tendency to trust makes sense in our evolutionary history.

Research indicates that the brain chemistry governing our emotions plays an important role in trust. According to Paul Zak, a cutting-edge scientist in the new field of neuro-economics, oxytocin, a powerful natural chemical found in our bodies (which, incidentally, also plays a major role in a mother's birth-labor management and milk production) can enhance trust and trustworthiness between people playing experimental trust games. Even a squirt of oxytocin-laden nasal spray is enough to do it. Other researchers have confirmed this – oxytocin is connected with positive emotional states that create social connections. Even animals become calmer, docile, and less anxious when injected with oxytocin.

We tend to trust people who resemble us physiologically. Lisa DeBruine provides compelling evidence on this feature. She developed a clever technique for creating an image of another person that could be morphed to look more and more (or less and less) like a study participant's face. She found that trust significantly increased with greater levels of similarity. The tendency to trust people who are similar to us may be rooted in the possibility that such people might be related to us. Other studies affirm that we like and trust people who are members of our own social group more than we like and trust outsiders and strangers.

Psychologist Dacher Keltner and her associates have shown that physical touch also has a strong connection to the experience of trust. In an experimental game widely used to study decisions to trust, an experimenter would touch slightly and unobtrusively the back of some individuals when explaining the

game while distancing from others. The former were more likely to cooperate with their partner than compete against. Keltner also notes that greeting rituals throughout the world involve touching.

Our brain wiring can also hinder our ability to make good decisions about how much risk to assume in our relationships. Researchers identify two cognitive illusions that increase our propensity to trust: (1) *person invulnerability* (this illusion makes us underestimate the likelihood that bad things will happen to us) and (2) *unrealistic optimism* (this illusion overestimates the likelihood that good things will happen to us). By the first illusion, we ignore high risks of street crimes, drunken driving, over-speeding, and the like thinking that nothing will happen to us. By the second illusion, we fondly entertain high hopes of marrying well, having great industrial careers, long life, and so on when the true odds of such combined outcomes is low.

3.10. The Psychology of Trust

Thus, it does not take much to tip humans toward trust. Trust is our regular default position; we trust routinely, reflexively, and somewhat mindlessly across a broad range of social situations. Trust rarely occupies the foreground of conscious awareness; we trust instinctively. Roderick Kraemer prefers to call this “*presumptive trust*” – our tendency to approach many situations without suspicion. Most of us, unless we have been victims of trust violation too early in life, have a predisposition or bias toward trust (Kramer, 2009, p. 71).

Presumptive trust, however, can also be disastrous when combined with the way we process information. For instance, we have a proclivity to see what we want to see. Psychologists call this the *confirmation bias*. That is, we pay attention to and overweigh information that supports our hypothesis or theory about the world, while we easily downplay or discount evidence to the contrary. Moreover, we are heavily influenced by social stereotypes – we too easily link virtues such as honesty, trustworthiness, reliability, and likeability with facial characteristics, good looks, age, gender, race, and the like. Psychologists call such tendencies our *implicit theories* of personality. We categorize and label people quickly and render social judgments swiftly. Thus, we may easily overestimate the trustworthiness of people while making ourselves physically, financially, and emotionally vulnerable. This could be even more dangerous if people fake outward sign of trustworthiness. Virtually, any indicator of trustworthiness can be manipulated or faked by smiles, maintaining strong eye contacts, gentle touch, cheery banter, and the like.

Further, we often rely on trusted third parties to verify the character or reliability of other people. Calling and interviewing “references” is a case in point. We easily “roll over” our trust from one known and trusted party to another who is less known. This is “*transitive trust*” says Kramer (2009, p. 72). Transitive trust can lull people into a false sense of security. Evidence suggests that Bernie Madoff was very skilled at cultivating and exploiting social connections – one of

his hunting grounds was the Orthodox Jewish community, a tight-knit social group.

Social psychologist Roderick Kramer (2009, pp. 74–77) offers many practical rules to adjust our mind-set and behavioral habits that could reduce doubt and ambiguity. We cite two:

- (1) ***Know yourself:*** Do you trust too much and too readily? Are you an optimist that believes most people are decent, harmless, and trustworthy? Hence, do you easily and indiscriminately open up to people by disclosing sensitive and critical information about yourself and family, about others, or about your company, before prudent, incremental foundations of trust have been established? Alternately, are you the opposite of all of the above, and hence, too mistrustful when venturing into relationships with others? Both are bad positions. Thus, figure out who you are, easily trusting the wrong people or congenitally mistrusting the right people? If you are the former, then you must get better at interpreting the cues of people you receive. If the latter, that is, you are good at getting and interpreting cues but have difficulty forging trusting relationships, then you will have to expand your repertoire of behaviors.
- (2) ***Look at roles as we as people:*** Adopt clear and compelling roles, and down-play social connections. The latter are important, but often they get in the way of trust. For instance, we trust engineers because we trust engineering theories and principles, and that engineers are trained to apply them. Similarly with other professions and roles, such as Doctors and Lawyers. Deep trust in a professional role can substitute our lack of personal experience with people. Role-based trust, however, is not foolproof, as the recent Wall Street meltdown and Bernie Madoff demonstrate.

Trust plays a critical role in business, economics, and the social vitality of nations. Our predisposition to trust, however, can make us vulnerable. The above rules are a primer on how to temper and discipline your trust and trusting relationships. Although neuro-economists, behavioral scientists, and social psychologists provide powerful new techniques such as brain imaging and agent modeling to discover how we make judgment of trust, yet in day-to-day operations we need some rules to temper our trust by sustained and disciplined ambivalence (Kramer, 2009).

3.11. Building Trust in the Initial Stages

Trust can build even at earlier stages of interpersonal relationships and does not necessarily have to depend upon longer and relationships that are more frequent. It is more challenging to build trust during initial stakeholder–business executive relationships when several factors are significantly low such as *interpersonal familiarity, perceived similarity of values, and the length and frequency of interactions*. Additionally, there could be several situational factors that can stimulate mistrust and/or distrust such as *high risk, vulnerability, past damages sustained,*

and past track record of questionable behaviors among certain business executives. The latter have been found to build mistrust (e.g., Doney & Cannon, 1997; Nicholson Compeau, & Sethi, 2001). A typical buyer–seller or stakeholder–business executive exchange encounter is an interpersonal exchange of social and economic benefits. Trust occurs in the context of this exchange.

3.12. Inter-organizational Trust and Investments

Fang, Palmatier, Scheer, and Li (2008) explore inter-organizational trust that can occur at three distinct organizational levels in an interfirm collaboration:

- (1) Inter-organizational trust between collaborating firms (say, A and B);
- (2) Each firm's (A or B) agency trust in its own representatives assigned to a collaborative entity (co-entity such as suppliers or distributors of A or B collaborating among themselves); and
- (3) Trust among the representatives assigned to the entity (intra-entity).

Inter-organizational and agency trust can motivate collaborating firm's resource investments in the co-entity (e.g., suppliers, distributors), particularly in the context of a differentiating strategy. Intra-entity trust promotes coordination within the co-entity, while inter-organizational trust and a differentiating strategy can magnify that effect. Thus, managing and building trust at multiple levels between collaborating organizations is critical to the success of that collaboration.

Inter-organizational trust affects and stimulates investments into one another. These investments could be in tangible and nonfungible assets such as manufacturing facilities, specialized machine equipment and tools, office buildings and corporate headquarters, as also in intangible assets such as employees who possess irreplaceable tacit knowledge, employees who are trusted representatives of the firm, and strategic technologies and patents. Inter-organizational trust increases relationship investments and communication and reduces costs of opportunistic behavior (Selnes & Sallis, 2003). Mutual trust functions as a safeguarding and controlling mechanism that enables information sharing and reduces the perceived risk of opportunism and conflict between collaborating firms (Lane, Salk, & Lyles, 2001). Conversely, lack of such trust can lead to suspicion and conflict (Bamford, Ernst, & Fubini, 2004) and may prevent future investments and even lead to the withdrawal of existing investments (Inkpen & Beamish, 1997).

Given our understanding of inter-organizational trust in the context of social exchange and agency theories, and given the fact that they can foster benefits of communication, information sharing, and increased relational investments, we propose the following:

Table 3.1 summarizes the theories of trust and corresponding propositions we have discussed thus far. Most of these theories and propositions deal with the initial stages of trust among relatively unfamiliar strangers. In general, as much

Table 3.1: Foundations of Interpersonal Trust between Stakeholders and Corporate Executives.

Basic Concepts of Trust	Basic Theories of Trust	Basic Factors that Promote Trust	Stakeholder–Corporate Executive Trust	
			Basic Hypotheses of Stakeholder–Corporate Executive Trust	Basic Factors that Promote Stakeholder–Corporate Executive Trust
Trust is something personal	Trust as a personality trait, an individual difference	Personal reputation for trustworthiness	Higher the trustworthiness of the corporate executive, the higher is stakeholder trust	Corporate executive’s techno-professional and empathy skills can enhance trustworthiness
Trust as trusting beliefs	Trust as rational prediction of one’s good behavior	Honesty, integrity, and past good record of the trusted party	Higher one’s honesty, integrity, and past good record, the highest is trust of the trustor	Cultivate honesty, integrity and a reputation of trustworthy behavior
Trust as mistrusting beliefs	Trust as rational expectation of one’s bad behavior	Dishonesty, unpredictability, and past bad record of the trusted party	The higher the dishonesty, unpredictability, and past bad record of the trusted party, the higher is the mistrust of the trustor	Repair and restitute the damage of past dishonesty, lack of integrity, and untrustworthy behavior
Trust is interpersonal	Trust as an interpersonal attitude	Frequency of interactions and interpersonal relations	Higher the stakeholder’s positive attitude toward the corporate executive via frequent, mutually open and cooperative interactions, the higher is stakeholder’s trust	Frequent stakeholder–corporate executive mutually open and cooperative relationships and interactions can foster positive attitudes of trust

		Mutual openness (frank information sharing)		
		Mutual cooperation		
	Trust as socially embedded expectations	Similarity of values	Higher a stakeholder's trust in the business corporate profession, the higher is stakeholder's trust in the corporate executive trust	Similarity of stakeholder—corporate executive beliefs, values, goals, and expectations
	Trust as faith in humanity	Similarity of beliefs, goals, and objectives		
		Similarity of expectations		
Trust is institutional	Trust as an institutional or Organizational phenomenon	Organizational values	Higher the stakeholder's trust in the legal institution of business and bankruptcy provisions, the higher is stakeholder's trust	Corporate company reputation, past track — record of honesty, and corporate executive — credentials can breed trust
		Institutional dependence structures		
		Organizational faith building structures		
Trust is situational	Complex and unfamiliar interpersonal situations necessitate trust	Accepting need for dependency under complexity and unfamiliarity	The higher one's acceptance of the complexity-unfamiliarity of the corporate situation, the higher is stakeholder—corporate executive trust	Stakeholder's acceptance of the complexity, risk and uncertainty of the corporate delivery system
		Willingness to be vulnerable	Higher one's willingness to be vulnerable, higher is one's trust	Stakeholder's willingness to be vulnerable

Table 3.1: (Continued)

Basic Concepts of Trust	Basic Theories of Trust	Basic Factors that Promote Trust	Stakeholder—Corporate Executive Trust	
			Basic Hypotheses of Stakeholder—Corporate Executive Trust	Basic Factors that Promote Stakeholder—Corporate Executive Trust
	Trust as a shield to one's vulnerability Trust can coexist with distrust	Positive distrust can enhance trust	One's positive distrust of the health delivery system can enhance stakeholder—corporate executive trust	Stakeholder's positive distrust of the corporate-bankruptcy delivery system

as we can assume stakeholders to be unfamiliar with the business situation and the newly appointed business expert or executive, these theories can help in initiating and building trusting beliefs and intentions.

In summary, in explaining the initial stages of trust, personality psychologists view trust as a personal psychological trait such as liking or as an individual difference (Deutsch, 1960; Mellinger, 1956). Others treating trust as a characteristic of interpersonal interactions consider trust as an interpersonal attitude (Anderson & Dedrick, 1990; Jones & George, 1998) or as socially embedded expectations (Ross, Frommelt, Hazelwood, & Chang, 1987; Rotter 1971, 1980) and relationships (Morgan & Hunt, 1994). As an institutional phenomenon, organizational scholars have focused on developing initial levels of organizational trust among relative strangers (McKnight, Cummings, & Chervany, 1998) or building deeper levels of trust among long partnerships and relationships (Williams, 2001). Finally, social psychologists define trust as an expectation about the behavior of others in transactions, focusing on the contextual factors that enhance or inhibit the development and maintenance of trust (Lewicki & Bunker, 1996).

3.13. Later Stages of Trust Development

Knowledge-based trust theories propose that trust develops over time as one accumulates trust-relevant knowledge through experience with the other person (Holmes, 1991; Lewicki & Bunker, 1995). Thus, time and interaction history can develop high levels of trust.

Typically, *trust development* is often conceived as one's experiential process of learning about the trustworthiness of others by interacting with them over time (Lewicki & Bunker, 1996; Mayer et al., 1995; Ring & Van de Ven, 1994). Stakeholders and business executives may relate to each other in multiple ways, in multiple encounters, and even multiple relationships within a given encounter. For instance, a stakeholder sees in the business expert an excellent specialist in the field that the stakeholder is interested in, a great diagnostician with a very high level of professionalism, a good work ethic, but less patient, less friendly, less compassionate, less communicative, and less listening. The stakeholder's relationship with the business executive is a function of all these attributes and encounters, and consequently, the stakeholder may trust the executive on some domains (such as academic excellence, professionalism work ethic, and business diagnostic skills), but distrust in other domains and encounters (e.g., communication, listening, respect, compassion, or patience with stakeholders). That is, the stakeholder may feel comfortable to trust the executive on some counts, but feel inappropriate to trust in other aspects (Baier, 1985; Govier, 1994). That is, parties to a trust–distrust relationship can hold simultaneously different views of each other – not always consistent and accurate. Continuous encounters with the executive may accumulate and interact to create a rich texture of experience that may be dominantly trusting, but with occasional distrusting moments. Within the stakeholder–executive relationship may occur many linkages

(link multiplexity) depicting the richness of interpersonal relationships (Katzenstein, 1996).

Table 3.2 synthesizes stakeholder–business executive interpersonal relations as a function of low versus high, trust and distrust. Each quadrant suggests clear implications to various stakeholders, including corporate and business executives. It is a challenge for all business executives to generate in their stakeholders low fear, low skepticism, and low cynicism such that costs of monitoring and vigilance over all parties may be significantly reduced. On the other hand, business executives also must do everything within their power and skills to generate high hope, high faith, high confidence, high assurance in their stakeholders and welcoming high stakeholder initiatives. Obviously, *Quadrant I* is the best for corporate executives. But the other three Quadrants have their mixed benefits and challenges.

Finally, Table 3.3 sketches costs versus benefits of various stakeholder–business executive trust–distrust encounters. The bottom line of modern healthcare is profits so that the latter fuel ongoing research and development and innovative modes of healthcare.

Table 3.2: Stakeholder–Corporate Executive Interpersonal Relations as a function of Low and High, Trust and Distrust.

Stakeholder Trust	Stakeholder Distrust	
	High:	Low:
	High fear High skepticism High cynicism High monitoring High vigilance	Low fear Low skepticism Low cynicism Low monitoring Low vigilance
High: High hope High faith High confidence High assurance High initiatives	<i>Quadrant I</i> High-trust stakeholder–corporate executive: High value congruence, common objectives, and frequent interactions Pooled positive and trust-reinforcing experiences; few defense mechanisms Conversations are rich, deep, personal, and occasionally complex	<i>Quadrant II</i> Medium-trust stakeholder–corporate executive: Sustained trust and distrust; trust constantly verified Strong reason to be confident in certain areas and diffident in others Relationships are multiplex, multifaceted, highly segmented, and bounded; like in strategic alliances

Table 3.2: (Continued)

	<p>Hence, reason to be mutually confident</p> <p>No reason for suspicion</p> <p>High willed pooled interdependence and cooperation</p> <p>All opportunities for sharing information pursued</p> <p>New trust-building initiatives sought</p>	<p>Significant amounts of information shared under strict confidentiality</p> <p>Collaboration opportunities pursued but risks assessed</p> <p>Vulnerabilities continuously monitored and protected</p>
<p>Low:</p> <p>Low hope</p> <p>Low faith</p> <p>Low confidence</p> <p>Low assurance</p> <p>Few initiatives</p> <p>Low resistance</p>	<p><i>Quadrant III</i></p> <p>Casual-trust stakeholder—corporate executive:</p> <p>Casual acquaintance</p> <p>Careful, bounded, arms-length discrete transactions</p> <p>No pooled trust-reinforcing experiences</p> <p>Conversations simple and casual</p> <p>No reason to fear or be confident</p> <p>No closeness or intimacy</p> <p>No threats to confidentiality as little information of consequence is shared</p> <p>Limited interdependence and cooperation</p> <p>Just professional courtesy</p>	<p><i>Quadrant IV</i></p> <p>High-mistrust stakeholder—corporate executive:</p> <p>Undesirable eventualities expected and feared</p> <p>Conversations are cautious, guarded, and often laced with cynicism</p> <p>Pooled negative distrust-reinforcing experiences; bureaucratic checks</p> <p>No reason for mutual confidence</p> <p>Strong reason for watchfulness</p> <p>Significant resources for monitoring</p> <p>Harmful or exploitative motives not ruled out</p> <p>Interdependence difficult over time or at best, carefully managed</p> <p>Offensive self-defense</p>

Source: Adapted from Lewicki et al. (1998, p. 445).

Table 3.3: Profile of Stakeholder–Business Management Executive Trust Levels: Costs versus Benefits.

Business Management Executive's Trust Level	Trust Dimensions	Stakeholder's Trust Level	
		Low	High
Low	Costs	Both stakeholder and business management executive:	High agency costs for the stakeholder:
		Low mutual cooperation	High-trust investment costs
		Low mutual honesty	High affect and emotion costs
		Low mutual benevolence	High profit–loss probability
			High costs of very few options
			Low monitoring ability
			For the executive: no significant costs
	Benefits	Both stakeholder and business management executive:	Almost none to stakeholders
		Low involvement	Significant benefits to executives.
		Low interdependence	
		Low investments; and	
	Risks	Low benefits	
		Business management executive-opportunism	Stakeholder abuse
		Low executive commitment	Stakeholder exploitation
			Stakeholder dissatisfaction
High	Costs	High agency costs for the executive:	Stakeholder may switch & not return
		High-trust investment costs	Both for stakeholder and for business management executives:
		High affect and emotion costs	Low agency costs such as:
			Bonding costs

Table 3.3: (Continued)

Business Management Executive's Trust Level	Trust Dimensions	Stakeholder's Trust Level	
		Low	High
	Benefits	High loss probability	Monitoring costs
		Very few options	Warranty-guarantee costs
		Low monitoring ability	Search costs
		For the stakeholder: no significant costs	
		Almost none to executives	Both for stakeholder and corporate executive:
		Significant benefits to stakeholders	High commitment
			High mutual cooperation
			Healthy interdependence
	Risks		High mutual honesty
			High mutual benevolence
			High satisfaction
		Corporate executive abuse	Sustaining high mutual trust
		Corporate executive exploitation	High dependence
		Corporate executive dissatisfaction	Stifled creativity due to over-trust
		Corporate executive may refuse cooperation	Few other options due to over-trust.
		Stakeholder opportunism	
		Stakeholder betrayal	

3.14. Trust in Buyer–Seller Business Management Relationships

Typically, a buyer–seller long-term exchange encounter represents a social exchange of benefits. Obvious benefits voluntarily provided by the buyer include

time, honesty, positive and negative information about oneself, one's credit, one's family and social careers, and monetary reward for the product or services; obvious benefits volunteered by the sellers relate to the quality and price of their products and services, complemented by their competence, benevolence, honesty, reliability, as reflected in care and concern for the customer.

The notion that *customer relationships* are key assets of any organization, whether pro-profit or otherwise, is gaining increasing prominence among both practitioners and academicians (Gruen, Summers, & Acito, 2000). This *customer asset management approach* has been referred to as "relationship marketing" and recently has received much attention in the area of building long-term relationships among channel members (Brown, Lusch, & Nicholson, 1995; Kumar, Scheer, & Steenkamp, 1995; Morgan, & Hunt, 1994). Marketing strategies such as book and record clubs, frequent flyer programs, gold and platinum credit card valued memberships, preferred customer memberships, and supplier guilds are illustrations of practical long-term relationships. In the professional service sector, lawyers, bankers, pastors, business executives, and doctors employ relationship-building approaches to their mission and ministry.

Specific examples of relationship marketing include: (1) Ritz-Carlton with its personalized welcome and farewell of guests, using the guest's name whenever possible. (2) Loyalty programs initiated by airlines that consist not only of rewarding the most valuable customers in the form of mileage prizes but also showing recognition of providing special privileges (Wulf, Odekerken-Schröder, & Iacobucci, 2001). (3) Compaq refused to sell computers directly to customers because that would constitute competing with its own dealers; the latter considered this refusal as a sign of Compaq's commitment to them, and the dealers reciprocated by providing the brand greater support and shelf space (Day, 1990). (4) Proctor and Gamble desisted from selling its top of the line men's perfume "Boss" over the Internet lest this practice should hurt P&G's relationships with Boss's regular brick and mortar retailers.

The view of trust as a foundation for social order spans many intellectual disciplines and levels of analyses (Lewicki et al., 1998, p. 438). Understanding why people trust and how trust shapes human relations has been the central focus of psychologists, sociologists, political scientists, economists, anthropologists, and scholars of organizational behavior and marketing. Researchers have seen trust as an essential ingredient for a healthy personality, a foundation for interpersonal relationships and cooperation, and as a basis for stability in social institutions and markets. Mutual trust between business partners has been found to be very vital in the uncertain, complex, volatile, and fast-paced business environment of today, especially given modern developments of globalization, strategic global competitive alliances (Prahalad & Hamel, 1994), and multicultural and multilingual relations (Cox & Tung, 1997; Sheppard, 1995).

3.15. Trust and Relational Contracting in Business Management

Basically, a *contract* states relationships between an enterprise and its stakeholders (Eisenhardt, 1989). An *enterprise* is any pro-profit or non-pro-profit institution such as firms, corporations, associations, or governments that offers a product or service to its target markets. A contract can take various forms such as exchanges, transactions, or the delegation of the decision-making authority, as well as formal legal documents.

There are various reasons why we need contracts in our transactions with people. The primal reason is the nature of the society we live in. Our freedom is expanded by the recognition of contractual rights and duties (Rawls, 1971). Because people in any society are not very isolated from others, share common needs and wants with others, need others in the areas they are not specialized in, and cannot be certain of the future, that contracts arise (Macneil, 1980). Without the institution of contracts and the right and duties that accompany them, modern business societies could not exist nor cooperate (Velasquez, 1988). All contracts presume choices that project into the future, and imply mechanisms of exchange relationships that reduce risk and uncertainty (Lusch & Brown, 1996).

Four basic ethical rules that govern social contracts are (Garrett, 1966, pp. 88–91): (1) both parties to a contract must have full knowledge of the nature of the agreement they are entering; (2) neither party must intentionally misrepresent the facts of the contractual situation to the other party; (3) neither party must be forced to enter the contract under duress or force; and (4) the contract must not bind the parties to an immoral act. Contracts that violate one or more of these ethical rules have been traditionally declared null and void since they diminish freedom that constitutes the essence of contracts (Rawls, 1971, pp. 342–350). The parties have a duty of complying with the terms of the contract. Failure to do so treats the other contracting party as a means and not as an end (Kant, 1964), and violates mutual trust (Rawls, 1971).

An enterprise has contracts (with varying degrees of formality and specificity) with its stakeholders such as customers and clients, creditors and suppliers, shareholders and bondholders. Basically, the enterprise may be considered as a “nexus of contracts between its top managers and its stakeholders” (Jones, 1995, p. 407). The board of directors and shareholders can influence these contracts. In as much as enterprise managers have a strategic position by which they enter directly or indirectly into contracts with various stakeholders, they can be considered as contracting agents for the enterprise.

In general, legal and formal agreements define transactional normative contracts, while ethical and moral principles determine relational normative contracts (Gundlach & Murphy, 1993). Business management can have both individual and group contracts that could be implicit or explicit, legal or normative, transactional or relational. All these dyads (explicit/implicit, legal/normative, transactional/relational) are not categorical but are exchanges that run on a continuum from implicit to explicit, from legal to social normative, from discrete,

short-term transactional to long-term relational contracts. Other things being equal, legal responsibility increases with explicit, legal, and transactional contracts, whereas moral responsibility increases with implicit, normative, and relational contracts.

Most transactions take place today in the context of ongoing relationships between producers, suppliers, marketers, customers, and consumers. Repeat purchases go beyond pure transactions to brand loyalty, and sometimes, to an ongoing buyer–seller relationship (Ganesan, 1994; Kalwani & Narayandas, 1995). Industrial buyer–seller relationships have moved from arms-length adversarial price -battles to more friendly mutually dependent commitments (Jackson, 1985). Even market transactions between competitor firms have become “domesticated” (Arndt, 1979) – they have become more relational than adversarial. Such domesticated transactions take place between the focal firm and its supplier firms, the focal firm and its channels (Anderson & Narus, 1990, 1991; Heide, 1994), between the focal firm and even its competitors, especially in the form of strategic alliances and marketing co-alliances.

In the wake of this trend of trust and long-term relationships in marketing, one should expect that both suppliers and customers might build up their trust in those marketing executives who consistently exhibit high levels of responsibility to all stakeholders. Obviously, the current thrust of trust and relationships in marketing practice should also enhance the sense of executive responsibility among marketing managers and practitioners.

Responsibility is best exercised in fostering long-term relationships with stakeholders (Drumwright, 1994; Ganesan, 1994) in a spirit of mutual trust and commitment (Gundlach & Murphy 1993; Morgan & Hunt, 1994). The additional marketing executive responsibilities accrue from the nature of relational trust. Howsoever conceived, defined, or implemented, trusting long-term relationships implies and mandates higher moral responsibilities than discrete and short-lived transactional relations mandate.

3.16. Business Management Stakeholder–Executive Cooperation

Trust has long been considered fundamental to cooperative relationships (Blau, 1964; Deutsch, 1958). Stakeholder trust is morally desirable: the emotional states associated with trust suggest its goodness; it creates economic benefits for all parties to the exchange (Wicks, Berman, & Jones, 1999). Mutual trust in stakeholder–business executive relationships – when both feel they can trust each other and are worthy of trust in return – provide a critical basis for self-esteem and a sense of security (Baier, 1994). In contrast, when people distrust others and do not trust themselves, their self-esteem may be harmed and their sense of security compromised. Since trust is a moral good, all people involved in a business environment should try both to cultivate trusting relations and to be seen as trustworthy (Baier, 1994; Wicks et al., 1999). Since business relationships with stakeholders are often among relative strangers (who are likely to be self-interested), mutual

trust building is even more imperative (Frank, 1988). In addition, trustworthiness of corporate and business executives can be a source of competitive advantage (Barney & Hansen, 1994).

Working together well requires some level of trust (Bromiley & Cummings, 1995), and increasingly common new work encounters demand that the parties come to trust each other quickly (Meyerson, Weick, & Kramer, 1996). Stakeholder–business executive encounters need working together and involve increasingly new work encounters, both of which need high and quick levels of trust for productive outcomes. Both need to know how trust initially forms.

Knowledge-based trust theories propose that trust develops over time as one accumulates trust-relevant knowledge through experience with the other person (Holmes, 1991; Lewicki & Bunker, 1995). Thus, time and interaction history can develop high levels of trust.

3.17. Opportunism and Opportunistic Behavior

Opportunism is a central concept in the Transactions Cost Economics (TCE) theory of Williamson (1975, 1985, 1993). Opportunism is a strategic behavior, whereby one makes false or empty “threats and promises in the expectation that individual advantage will thereby be realized” (Williamson, 1975, p. 26). Opportunism is “seeking self-interest with guile” (Williamson, 1985) or of seeking “self-interest unconstrained by morality” (Milgrom & John, 1992). Opportunistic behavior manifests itself in various ways such as lying, stealing, cheating, or other “calculated efforts to mislead, distort, disagree, obfuscate, or otherwise, confuse” (Williamson, 1985, p. 47) partners in business. Opportunism is “the ultimate cause for the failure of markets and for the existence of organizations” (Williamson, 1993, p. 102). However, if not for opportunism, “most forms of complex contracting and hierarchy vanish,” and markets alone would be sufficient for handling most transactions through autonomous contracting (Williamson, 1993, p. 97).

TCE makes two behavioral assumptions: (1) opportunism, which suggests that one cannot predict others’ behavior, and (2) bounded rationality, which implies that one cannot identify one’s own best behavior. Not all are inclined to opportunistic behavior; those who do, the “determined minority” (Williamson, 1993, p. 98), may do because of the above two assumptions. Some may be inclined to “instrumental behavior” in which there is no necessary self-awareness that the interests of a part can be furthered by opportunism (Williamson, 1975). These people, without being aware, are instrumental in opportunistic outcomes of others.

According to Williamson (1993, p. 102), opportunism is primarily a “human condition,” a human tendency or attitude (inclination, proclivity, and propensity). Opportunistic attitudes are “rudimentary attributes of human nature” (Williamson, 1991, p. 8). Opportunism is distinguished from opportunistic behavior; the latter are acts of self-interest with guile (Ghoshal & Moran, 1996).

Opportunism differs from mere “self-interested behavior.”⁴ The latter is presumed to be constrained by obedience to rules and faithfulness to promises, while opportunism (which is self-interest with guile) is not. Opportunism seeks self-advantages with no concern for the advantages of the other. Williamson, however, does not specify the mechanisms (e.g., economic institutions, markets) through which opportunism is created or reduced (Hart, 1990), and instead assumes it be a “human condition” (1993, p. 102). Even though this behavioral assumption of opportunism is regarded as an “extreme caricature” of human nature (Milgrom & John, 1992, p. 42), yet Williamson believed that opportunistic behavior (specific acts of self-interest with guile) can be controlled by proper social sanctions.

3.18. Concluding Remarks

The view of trust as a foundation for social order spans many intellectual disciplines and levels of analyses (Lewicki et al., 1998, p. 438). Understanding why people trust and how trust shapes human relations has been the central focus of psychologists, sociologists, political scientists, economists, anthropologists, and students of organizational behavior and marketing. Scholars have seen trust as an essential ingredient for a healthy personality, as a foundation for interpersonal relationships, as a foundation for cooperation, and as a basis for stability in social institutions and markets. Mutual trust between business partners has been found to be very vital in the uncertain, complex, volatile, and fast-paced business environment of today, especially given modern developments of globalization, and strategic global competitive alliances (Prahalad & Hamel, 1994), multicultural and multilingual relations (Cox & Tung, 1997; Sheppard, 1995).

Currently, there is a woeful lack of knowledge and technology in building trust of the public in the healthcare system; in fact, some medical professionals are even cynical, believing that loss of trust was so pervasive in our commercialized healthcare system that no initiatives to build it would likely succeed (Mechanic & Rosenthal, 1999). Thus, creating social and interpersonal trust should be a part of well-defined technology of structural innovations, positive incentives, teamwork, interpersonal skills, and disease management initiatives (Landon, Wilson, & Cleary, 1998).

NOTES

1. Cited in Covey (2006).

2. The growing importance of relationships in business has also heightened interest in the role of *trust* in fostering such relationships (Bendaupudi & Berry, 1997; Garbarino & Johnson, 1999; Kozak & Cohen, 1997; Sirdeshmukh et al., 2002). For instance, considerable effort has been devoted to examining the role of trust in relationship development, particularly within distribution channels in marketing (Doney & Capon, 1997; Morgan & Hunt, 1994; Nicholson, Compeau, & Sethi, 2001). Several conceptual (e.g., Gundlach & Murphy, 1993; Nooteboom, Berger, & Noorderhaven, 1997) and empirical (e.g., Garbarino & Johnson, 1999; Tax, Brown, & Chandrashekar, 1998) approaches have

proposed trust as a key determinant of relational commitment. We can adopt these approaches to incorporate and build trust in business situations.

3. BW Online Bureau (2015). Lucrative Liaisons. *BWBusiness World*. Retrieved from <http://www.businessworld.in/article/Lucrative-Liaisons/08-06-2015-82082/>

4. Williamson's theory of TCE has been critiqued by several scholars. Common weaknesses detected are: (1) TCE exaggerates opportunism in markets; over time the invisible hand of the markets will weed out habitual opportunism (Hill, 1990); (2) according to TCE, organizations primarily exist because of their ability to attenuate opportunism through control; that is, organizations begin where markets fail; for one thing, organizations may not weed out all opportunism by rational or social control, and the other is, that in the bureaucratic process of doing so, they may generate more opportunism, as is argued by the "self-fulfilment prophecy" theory advocated by Ghoshal and Moran (1996); (3) the distinction between markets and hierarchies is overstated; most markets function within an organizational economy that continuously generates innovations and new products in the marketplace; thus "markets begin where organizations begin to fail" may be a more realistic assumption (Rumelt, Schendel, & Teece, 1991, p. 19); (4) TCE over-focuses control; although control is necessary in all organizations, a preoccupation with control obscures and weakens an organization's fundamental source of advantage over markets (Ghoshal & Moran, 1996).