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Intrinsic and Enforceable Trust: A Research Agenda

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Paper prepared for presentation at the 99th EAAE Seminar 'Trust and Risk in Business Networks', Bonn, Germany: February 8-10, 2006

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Abstract

Trust is modelled as either enforceable or intrinsic. Antecedents of trust in history, human nature, personality and culture are analyzed. The implications of these for the dynamics of trust in business-to-business networks of organizations are discussed. Finally an agenda for empirical research is proposed, of which the author argues there is great need because of the crucial role of trust in networks of food provision.

Keywords: *Trust, business network, intrinsic trust, enforceable trust*

Trust

How many people do you trust? Would you trust your own family as business partners? And what about your friends? What does it mean if you say you trust somebody: is it about good intentions or about good performance? Do you need to trust people to do business with them? These are important questions in everybody's lives. The world today is made up of innumerable cross-national networks of organizations. The issue of trust keeps cropping up, but it is intractable.

This article explores the notion of trust. A lot of literature about trust has appeared in the last decades in various fields of the social sciences. Various definitions are used, most of which stress the single transaction between two people: "If A believes that B will act in A's best interest, and accepts vulnerability to B's actions, then A trusts B." This kind of definition captures the meaning of trust in the context of a transaction, and as such it is useful. But most transactions take place within some kind of relationship, be it family membership, friendship, business partnership or ownership.

The online encyclopaedia Wikipedia captures the wider context of trust when it defines trust as follows: "Trust in sociology is a relationship between people. It involves having one person thinking that the other person or idea is *benevolent, competent / good, or honest / true*. (...) It makes social life *predictable*, it creates a *sense of community*, and it *makes it easier for people to work together*. Trust (...) is also integral to the idea of social influence, as it is easier to influence or persuade someone who is trusting."

This definition of trust brings in the social context, and it implies that trust cannot be the same to people who have different ideas about benevolence, competence or honesty. Likewise, most

people have probably experienced in their lives that benevolence, competence and honesty are not always combined in one person. What is more, they can sometimes become opposites, as e.g. when one hides a very disagreeable truth from somebody for the sake of benevolence, i.e. to spare the other's feelings.

Doney et al (1998) add two more "trust-building processes" to the three mentioned by Wikipedia: prediction, and transference. Prediction means that A can trust B to do something in an instrumental way, as you would trust your car, regardless of B's intentions. Transference points to the practice that people rely on accounts by third persons "Call B. You can trust him, I've known him for years").

Mutatis mutandis, that which holds between people also holds between organizations in a network. Only it becomes more complicated, since representatives of organizations can come into conflict between their trustworthiness to their mother company and their trustworthiness to their trade partners.

This article will attempt to unravel the concept of trust as it applies to business networks. The aim of this analysis is to form the basis for the research agenda that concludes the article.

Types of trust

The main distinction I want to introduce is between intrinsic and enforceable trust. In both cases, the result is that we can rely on the other. But the motivations are different.

Intrinsic trust is the trust that we may feel for a person 'just like that'. Or more precisely, at first acquaintance the feeling is "I think I can trust that person", and also "I would like to trust that person". This feeling relates to the basic needs of human beings to affiliate with one another, to be friends. Then, with time, through being tested time and again and not broken, intrinsic trust can deepen. The heavier the test, the more trust it builds: "A friend in need is a friend indeed".

Enforceable trust is the trust we place in somebody with whom we are not necessarily on friendly terms but whom we know is better off when they live up to the trust we place in them, or even forced to do so.

Intrinsic trust is a much stronger notion than enforceable trust. The Wikipedia definition clarifies this. Both make social life predictable, and both make it easier for people to work together. But only intrinsic trust, if it is shared in a network of friends, creates a sense of community. And only intrinsic trust makes it easier to influence others. Lenin is supposed to have said "Trust is good, but control is better". This holds for enforceable trust. But intrinsic trust makes control redundant.

Yet the two types are linked. For instance, a cynical social psychologist might argue that trustworthiness is always self-interested. Or an economist might comment that the set of intrinsically trusting relationships of all the staff in an organization constitute the social capital

of that organization. Or an evolutionary psychologist might find that trust is simply a precondition for survival, so that any form of trust is enforced by evolution.

The two types of trust are also linked in more down to earth ways. If I introduce two people, both of whom I trust intrinsically, to one another, they may not like one another at first; but both put the trust that I place in them at risk if they act in an untrustworthy manner with their new acquaintance. So the trust that exists between them at first is, in a real sense, enforceable trust. Fortunately, from being in a working relationship with enforceable trust, any pair of people may end up intrinsically trusting one another.

Taking this line of thought a bit further we encounter the concept of *reputation*. In any society, breaches of trust have negative effects on somebody's reputation with the victim and the victim's friends. Untrustworthy behaviour puts one's reputation at risk. As Gambetta (2000) puts it "It may be hard to bank on altruism, but it is much harder to avoid banking on a reputation for trustworthiness: as all bankers (and used-car dealers) know, a good reputation is their best asset". We may add that fear of losing a reputation is the best enforcer of trustworthiness. In a hypothetical environment where reputation was all-important, the distinction between intrinsic and enforceable trust would become irrelevant to the functioning of the social network.

For our present purposes, based on the daily experiences of people in their working lives, we shall consider the two types of trust to be separate things. And so they are, from a practical point of view. If we have business partners we do not know well, as happens a lot in today's globalised business world with its volatile employment, then we had better check on the carrot and the stick. The carrot stands for the incentives that our business partners have to be trustworthy, and the stick stands for the punishment we can inflict on them if they fail to do so. In a network of intrinsic trust, no carrots and sticks are needed because the mutual trust is its own reward.

Antecedents of trust

Historical coincidence

For the sake of completeness we remark that any episode is couched in historical circumstances that shape it. Inevitably this has influences. Large-scale circumstances such as wars, smaller-scale ones such as laws and trade regulations, and very small-scale ones such as accidental meetings, all play their role.

Human nature

One of the basic needs of humans is what Maslow has termed 'love and belonging' and what I would call 'affiliation'. Intrinsic trust is a consequence of feelings of affiliation. People are driven by a need for intrinsic trust.

In 'Western' parlance about organized life, emotion is often contrasted with rationality. At the same time, terms such as 'aggressive marketing', 'win-win situation' and 'preferred supplier', to pick just a few, all denote relationships of either friendship or competitor-ship. Without

emotion there can be no friendship, nor winning or losing. So I take the point of view of Frijda (1986) who contends that far from being irrational, emotions are a perfectly rational mechanism that serves our interests. Emotions are the early warning system that tells us about the fulfilment of our basic needs. Some of these emotions are at the basis of intrinsic trust. Having nobody to trust is distressing. Social life is full of symbols and rituals that express the wish to trust or to be trusted. These can be as basic as the polite smile, the handshake or the hug. They can involve rituals of sharing food and drink. Or they can be embodied in economic transactions, e.g. in the modalities of contracts (Hofstede et al. 2004, p. 212). Feelings of sympathy or antipathy, attraction or repulsion guide our choice of whom to trust.

In economic life, another basic need than affiliation is also prominent: the drive for that which Maslow calls 'esteem', Nietzsche called 'Macht' (power) and I would call 'dominance'. Political alliances, whether in the private or in the public sector, tend to be based on incentives for dominance: the partners believe that they are more powerful together. "If you can't beat them, join them" is the motive. Trust in these alliances is incentive-driven rather than intrinsic, at least initially.

There is often a friction between the desire of business partners to have it their way and their need to appear trustworthy. Coercive action may not be well received, because it connotes self-interestedness. Displays of power can generate resentment. Kramer (1999) gives some eloquent examples of how surveillance systems in organisations communicate to employees that they are being distrusted, making them fearful and suspicious or even leading them to try and sabotage the surveillance system instead of doing their work.

Personality

The tendency to trust, and the tendency to be trustworthy, are both linked to personality characteristics. McCrae and Costa (2003), creators of the Big Five personality model (OCEAN: Openness, Conscientiousness, Extraversion, Agreeableness, Neuroticism), show that the trait *Agreeableness* is linked to the benevolence component of trust as well as the honesty component. They write (p. 50): "Agreeable people are trusting, believing the best of others and rarely suspecting hidden intents. (...) Just as agreeable people trust others, so they are themselves trustworthy, marked by candour and straightforwardness."

The competence component of trust is catered for by another trait, *conscientiousness*. McCrae and Costa, p. 50: "Conscientious people are rational, informed, and generally think of themselves as being high in competence." They are dutiful and perfectionist.

Yet another personality trait that might affect trust is *neuroticism*. The first two forms of neuroticism, *anxiety* and *angry hostility*, are the dispositional forms of two fundamental emotional states: fear and anger. Anxious persons are prone to worry, while hostile persons are prone to ill temper. Neither trait is conducive to stable, trusting relationships.

The five traits are independent, meaning for instance that an agreeable person is just as likely to be conscientious as not to be so. But the facets of one trait, such as being trusting and being trustworthy, are linked. As the Dutch proverb goes: "*Zoals de waard is, vertrouwt hij zijn*

gasten” (Like the innkeeper is, so will he trust his customers; in English the negative formulation is used: “Ill doers are ill deemers”).

Culture

People can read one another’s intent. They are good at exchanging signs of trustworthiness: without them, no intrinsically trusting relationships, friendships or communities could be created. The default level of trust that is assumed is not the same across the world, however. The dynamic whole of unwritten rules of the social game in a society, or in other words its culture, differs across parts of the world. In this paper we use Geert Hofstede’s model of culture. This means that in this paper, ‘culture’ is not an attribute of individuals, but of societies.

Geert Hofstede’s value questionnaire used for his IBM study (current version at www.geerthofstede.nl) included the statement “Most people can be trusted”. It turned out that this was one of the statements to load on the dimension of *masculinity versus femininity*. In masculine societies, people hold the belief that most people *cannot* be trusted. As a result, one expects that in masculine societies people would need to exert themselves more in order to appear trustworthy business partners, e.g. be certified or promise contracts, and more institutions would exist to cope with distrust, e.g. lawyers, weapons. Another defining question for this dimension was “In an ideal job, it would be important to work with people who co-operate well with one another”. The dimension has also been labelled performance orientation versus cooperation orientation. In a masculine culture, having colleagues who work well with one another is not deemed so important.

Hierarchy changes expectations about cooperation and with it the definition of trustworthiness. In the IBM study, the statement “In an ideal job, it would be important to have a good working relationship with my direct superior”, that seems at first sight to be similar to the question about colleagues who work well with one another, turned out to be uncorrelated with that question. Instead it was one of the defining questions for the culture dimension of *power distance*. In a hierarchical culture, employees do not expect a good working relationship with their superior. Their superior is of another world, so to speak. The concept of trust in such a culture is entirely different across the hierarchy than it is at one level.

Another question that loaded on power distance is “An organization structure in which certain subordinates have two bosses should be avoided at all costs”. Respondents in hierarchical cultures endorsed this statement. This has consequences for the governance of networks of organizations: in a network, it is inevitable that unity of command is not complete. Numerous employees work for their own line boss as well as for counterparts in the network to whom they deliver or from whom they receive. A logistics manager in a hierarchical culture may trust a counterpart or not but never act on it unless explicitly told to do so by the boss.

Trust across organizational boundaries is also affected by yet another dimension of culture. In the IBM study, there were no questions about cross-organization contacts. But the statements “competition between employees usually does more harm than good” and “An organization’s rules should never be broken – not even when the employee thinks it is the organization’s best interest” contributed to the dimension of uncertainty avoidance. This dimension denotes

anxiety about things that are ill-defined. It has been shown to be connected with institutional distrust (Hofstede and Hofstede 2005, p. 192). In uncertainty avoiding countries, citizens feel less competent than specialist bodies such as governments. Symbols of professional competence, such as titles and certificates, are important. Strangers are considered scary. It can be conjectured that creating network forms of collaboration across organizations that are specialised in different things, involving collaborating with strangers and having to distribute unknown risks and rewards, is not popular in a society of strong uncertainty avoidance.

Trustworthiness in trade relations is also related to the culture dimension of short-term versus long-term orientation. Long-term oriented cultures place high value on the postponement of gratification. This is a good attitude for creating long-term commitments. In a short-term oriented culture, business deals tend to be opportunistic.

Finally, an obvious relation exists between trust and the dimension of individualism versus collectivism. Western mindsets are at the individualistic end of the cultural spectrum. In such a mindset, every individual, or organization, is free to choose its alliances and to revoke them if circumstances require it. In a collectivist mindset, on the other hand, each individual or organization is a member of a very long-lived network of relationships of interdependency. Trust in such a society is intricately linked to in-group membership. One could say that being member of an in-group is a very strong enforcer of trust within that in-group.

The five dimensions of culture are independent, meaning that the effects described here all interact in actual life. Here is an example: Williamson (1985, p. 120 ff) shows how the remarkable success of Toyota from 1937 until 1985 was facilitated by the long-term network of loyalty between the firm and its subcontractors, and by the effective system for recording and sharing reputation across the network. Williamson does not mention culture, but these organizational arrangements were obviously much facilitated by the long-term oriented, collectivist Japanese culture.

The relations between cultural traits and processes of trust building and breaking are intricate and problematic. This is proven, if by nothing else, by the many contradicting viewpoints about trustworthiness of people and groups that are held in the world, and by the manifold relationships between people in all professions and in all parts of the world. Yet pattern can be found. Doney et al. (1998) propose a causal relationship pattern between national culture and the dynamics of trust that merits investigation. But they do not come up with empirical observations or with research proposals.

Cross-cultural relationships

Culture sets the rules of the social game. Many of these unwritten rules deal with symbols and rituals of trustworthiness. In Western Europe, a handshake is a small sign of willingness to trust, and anybody can initiate one. In the Muslim world, whether initiating a handshake is appropriate, or whether it disqualifies one, depends on gender and religious affiliation. Thousands of more subtle or more elaborate but similar mechanisms exist in which two, or sometimes more, people exchange actions or words in order to indicate willingness to trust. All

of these mechanisms are more likely to fail across cultural boundaries because of sheer misunderstandings.

Consider the following episode. A Swiss buyer of goods is visiting a Chinese entrepreneur, trying to close a contract. The Chinese sits inscrutably while the Swiss expostulates his detailed proposal. The Swiss finishes his speech, a bit nervous at receiving so little feedback. Finally the Chinese speaks: "This is not good for us." And then "Let me take you for dinner". If the Swiss has never been to China before, he may be in the belief that his proposal is off. In fact the Chinese is keenly interested, and that is why he wants to strengthen the relationship with his buyer by taking him out to dinner. It is not sure that the Swiss will come: he may consider that since the Chinese does not like his proposal, going out to eat strange Chinese food might be a disagreeable way of wasting time. So both negotiators could be letting a chance slip through their fingers, and worse, their expectations for the suitability of one another's group as business partners would be lowered.

Cross-cultural contacts are always more difficult than within-culture contacts, whatever the culture. Personality plays a prominent role in cross-cultural contacts. Open, agreeable people are more likely to expect and to recognize the intent behind unfamiliar behaviour of foreigners, whatever the culture of either.

Trust in organizational networks

So far this article has argued that trust is a basic ingredient of social life and that its dynamics are dependent on human nature, on personality and on culture. We now turn to the consequences of these assertions for the governance of networks of organizations.

The two classical forms of organizational governance are the firm (or hierarchy) and the market. Transaction cost economists have explored mixes between the two, and given them various names, e.g. 'hybrids' (Menard, 2003), 'relational contracting' (Williamson, 1985).

What assumptions about trust are implicit in these different forms of governance?

Markets

An anonymous spot market requires no trust, although if hidden quality attributes exist, the buyer may become aware that he has been cheated upon when it is too late. In most countries, governments assume the burden of quality control.

As soon as the actors in the market are sufficiently known to one another to exchange reputation information, enforced trust enters into the picture. Being found out to be untrustworthy, either by a business partner or by a government agency, is a threat to reputation.

In practice, long-term relationships with a level of intrinsic trust exist in many markets. There is no firm boundary between markets on the one hand and networks of business friends on the other hand. It still makes sense to distinguish impersonal, 'arms-length' ties from ties of friendship, 'embedded ties'.

Firms

Firms are a way of enforcing trustworthiness. The firm buys the knowledge, skills and time of employees. This gives the firm specific assets. But those employees could do all kinds of things that undermine the firm, such as talking to employees of competitors, taking bribes to give away sensitive information, or simply not working well. So any firm has an incentive to check on its employees to the extent that it does not trust them. In case employees are found out to be untrustworthy, they can be punished, e.g. by being sacked.

Remember Lenin's quip "Trust is good, but control is better". Depending on personality and culture, one would expect some bosses and workers alike to hold the reverse: "control is bad, and trust is better". This is indeed the Scandinavian mindset.

It follows that trustworthiness-checking mechanisms in firms will, and have to, vary across countries. This poses a challenge for multinational firms. What practices to adopt when any practice is more appropriate in one place than in another? Creating a strong, coherent culture in the company may sound like a possible solution, but in practice one does not create a culture overnight. The experiences at IBM, which was a company with a supposedly very strong culture at the time of Geert Hofstede's research but nevertheless showed huge cross-country differences in values, shows this in a convincing way. But it also shows that a company can run successfully without having a single culture.

Hybrids

The statements about enforcing trustworthiness that hold for multinational companies, holds for multinational networks *a fortiori*. Here there is no central command that could enforce a 'company culture'. Hofstede (2004, p. 429) mentions three requirements for organisations that enter into hybrid forms of governance: 1) agreeing to share authority, 2) engage into a long-term relationship, 3) accepting vulnerability. The vulnerability is because other partners in the collaboration cannot be prevented from leaving if they really want to; and that could make investments in the venture worthless.

The only way to cope with these three requirements without reverting to some kind of hierarchy is to have a degree of trust between the partners. Menard (2003) distinguishes 'trust' and 'relational network'. The difference may be that in the latter, reputation rather than intentionality is the main mechanism. Anyway, trust clearly is a central issue to the existence of hybrid forms of governance.

Open research questions

The distinction between enforceable and intrinsic trust put forward here is not very shocking or novel. The strongest aspect is the wide range of potential antecedents to trust that is considered. In order to get ahead, empirical research is needed. To investigate the issues put forward here, I advocate approaches that capture the dynamics of trust over time. Longitudinal case studies should be the main part of the mix. Periodic questionnaire investigations can contribute in various ways, for instance to establish values for antecedents of trust.

For all the research I propose here, one of the main questions is whether enforceable or intrinsic trust are involved and how, within a relationship, they are related over time. And for

all of them, breakdown of trust is at least as interesting as its formation. Wherever 'trust' is put, 'distrust' is also relevant.

Issues to investigate are:

- How important are historical circumstances (including laws and policies), human nature, personality and culture relative to one another as antecedents of trust? How much of this changes in multi-cultural networks, and on what aspects of the cultural differences does this depend?
- How is trust propagated across a network?
- What is the role of representatives, e.g. people who mediate between their own firm and their partners in other firms?
- What causes trust to break? How many of the breakdowns of trust are actually justified?
- How is trust mended, or how is it maintained to avoid breakdown?

I believe that gaining insight in these factors will contribute to the quality of life for the people involved in food production networks, as well as to the quality of the products of these networks. Intrinsic trust is not a luxury but a necessity for a happy life. I believe it will turn out to be also a business asset in food networks.

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