

## **Trust if you dare: a cross-cultural examination of the trust construct.**

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### **Abstract**

Empirical evidence is presented which suggests that trust is more important in facilitating exchange in transitional economies than industrial economies. Furthermore, the various item measures that have been employed to evaluate trust in Europe, North America and Australia, fail to accurately describe the construct among small farmers in the transitional economies. Further studies are necessary to develop a more robust measure of trust in the context of the transitional economies where social capital is more likely to play a much greater role in facilitating exchange.

### **Introduction**

For any particular potential exchange, trust will be critical if two situational factors are present: risk and incomplete buyer information. Since most potential sales transactions present some degree of risk and uncertainty to the potential buyer (Hawes *et al.* 1989), without some degree of trust, the perceived risk may be too great for the transaction to occur. Trust enables buyers to adopt schemas which leave them free to act where they are unable to acquire sufficient information (Selnes 1998) or where the buyer must process more information than they are capable of handling (Tomkins 2001).

More specifically, where relatively high levels of perceived risk are associated with the purchase of the product, customer trust can play a pivotal role in supplier selection and patronage. Trust depends both on the credibility of the product and the credibility of the service offered (de Ruyter *et al.* 2001). In this regard, Swan, Trawick and Silva (1985) indicate how competence, customer orientation, honesty, dependability and likeability facilitate the development of trust between sales representatives and their customers. Moorman, Deshpande and Zaltman (1993) argue that the interpersonal factors that most affect trust include perceived expertise, sincerity, integrity, tactfulness, timeliness and confidentiality. Crosby, Evans and Cowles (1990) contend that mutual disclosure, a cooperative rather than a competitive intention and the style and intensity of the communication between individuals is critical in establishing and maintaining interpersonal relationships.

While Sako (1992) differentiates between contractual trust, competence trust and goodwill trust, Plank, Reid and Pullins (1999) contend that trust is comprised of three individual components: sales-person trust, product trust and company trust. Similarly,

Anderson and Narus (1990) and Doney and Cannon (1997) find it necessary to differentiate between trust in an individual and trust in an organization.

However, trust may not only vary between individuals and organizations, but also between nationalities (Conway and Swift 2000). While it is much easier to trust someone if one can relate to them, differences in culture, accepted business practice, the economic environment, legal system and communications infrastructure, will make developing trust in global markets a challenging task (Skarmeas and Katsikeas 2001). Especially in the developing world, where there is imperfect information and the lack of any effective legal mechanism for handling disputes, trust will rely to a much greater extent on reputations, sanctions and moral norms, where the most common reason for trusting someone is the result of a long-standing relationship and personal friendship (Platteau 1994; Fukuyama 1995; Lyon 2000). Putnam (1993) suggests that trust is based primarily on the social system, where individuals find themselves capable of trusting because of the social norms and networks within which their actions are embedded. Sako (1992) describes how when trust is present, transactions may take place without prior agreement on all terms and conditions because of embedded social relationships.

Humphrey and Schmitz (1998) suggest that trust operates at two levels: in the ordering of the relationships required for basic market transactions (minimal trust), and in the relationships that sustain the cooperation seen in industrial supply chains and clusters (extended trust). Particularly in the developing world, where institutional mechanisms for redress are lacking and actively engaging in opportunistic behavior is often rewarded, the benefits of extended trust become obvious when unanticipated contingencies are dealt with through cooperation. The incentive to cooperate is greatest when firm's face challenges they cannot easily address on their own.

While Sako (1992), Humphrey and Schmitz (1998), Moore (1999) and Lyon (2000) offer similar definitions of trust, there is little empirical evidence to support the universality of the construct. Sako (2000) compares trust across business relationships in the US, Japan, the UK, Germany and Europe, noting significant differences for each of the trust dimensions (contractual, competence and goodwill), equity and opportunism. While Mavondo and Rodrigo (2001) indicate that it is common practice in the relationship literature to investigate international business relationships through the direct replication of Western constructs, in widely diverse cultures, such an approach should be rejected on the grounds that the various measures will fail to adequately capture the true essence of the constructs. Singh and Sirdeshmukh (2000) note that by defining trust in global terms, significant conceptual problems can arise, as different respondents may use different attributes to evaluate trust. However, they caution against developing different definitions for every situation as the constructs may then contain so many different attributes that they become cumbersome. On a methodological note, Kumar, Aaker and Day (1999) question whether it is appropriate to administer the same scales to participants in other countries. Low levels of education and literacy may influence the response formats to the scales employed. Moreover, the culture in a country can also affect the responses and introduce some cultural bias.

Using eight measures of trust developed from the literature, this paper seeks to explore the extent to which trust is consistent between Australia and three developing countries in South East Asia (Indonesia, the Philippines and Vietnam).

### **Defining trust**

As a concept, trust means many different things to many different people. However, most concepts of interpersonal trust share three common elements: (1) some degree of interdependence between the trustee and trustor; (2) trust provides a means of coping with uncertainty in the exchange; and (3) trust is a belief or an expectation that the vulnerability resulting from the acceptance of risk will not be taken advantage of by the other party (Lane 2000). However, where academics begin to diverge is in identifying the grounds or social basis upon what such expectations may be based. Trust may be value-based or emotion-based, calculative, or based on the qualities one expects a trusted person to possess.

Zucker (1986) describes trust between organizations in the context of process-based trust, characteristics-based and institutional-based trust. Process-based trust is derived from a social system of mutual obligations, where each partner has clear expectations of the other's behavior. Characteristics-based trust is tied to specific individuals, where various demographic characteristics serve as indicators of membership to a common cultural system with shared expectations. Institutional-based trust rests upon membership of a subculture within which clearly delineated expectations are held and from various intermediary mechanisms that the trustee undertakes to protect the interest of both partners.

Platteau (1994) conceptualizes trust at two levels; limited group morality and generalized morality. Limited group morality is restricted to those people with whom the actor has close identification, while generalized morality is applicable to society in general. It is a society's predisposition towards generalized forms of normality that is essential for the development of trust as it leads to improved communication channels and social cooperation.

In long-term buyer-seller relationships, Sako (1992) finds it necessary to differentiate between contractual trust, competence trust and goodwill trust. Contractual trust rests upon the moral norm of honesty and keeping promises. Competence trust is based on the expectation that the trading partner will perform its role competently. Goodwill trust is described as the willingness of the exchange partner to do more than expected. Someone who is worthy of goodwill trust is dependable and can be granted some discretion, for they can be trusted to take initiatives while refraining from taking unfair advantage.

Handfield and Betchel (2002) describe how trust is a function of sustained reliable performance. However, trust is not a necessary ingredient for exchange, just as the presence of distrust does not, in and of itself, preclude purchase. Situational and contextual factors will determine the importance of trust in the transaction. Typically, trust becomes important when the transaction involves a high degree of performance ambiguity and where significant consequences may arise from the use or application of

the product (Singh and Sirdeshmukh 2000). Trust will become all the more important when intangible assets are transferred between the parties (Murphy 2002).

Plank, Reid and Pullins (1999) contest that while trust is a global belief on the part of a buyer that their exchange partner will fulfill their obligations, trust is comprised of three individual components: product trust, sales-person trust and company trust. Anderson and Narus (1990), Doney and Cannon (1997) and Smeltzer (1997) find it necessary to differentiate between trust in an individual and trust in an organization. However, since both inter-personal trust and inter-organizational trust are based upon the outcome of successful exchange experiences with a partner (Sydow 2000), it can become difficult to differentiate between personal trust and organizational trust. Because trust is difficult to define, it is difficult to measure, thus the various measures used to evaluate trust may not necessarily capture all of the facets (Smeltzer 1997). Nevertheless, Zaheer, McEvily and Perrone (1998) contend that it is possible to differentiate between inter-personal trust and inter-organizational trust.

Aulakh, Kotabe and Sahay (1996) describe how the role of trust in inter-organizational partnerships and its underlying dynamics vary according to the internal organizational culture of the partner as well as the broader cultural environment. Smeltzer (1997) considers how trust is influenced by the length of the relationship, the dynamics of the industry, the people involved and the number of times and extent to which trust has been tested in the past. People will generally trust one another until such time as the exchange partner takes various actions to destroy trust. However, only one instance of opportunistic trading may be enough to destroy trust. Trust is therefore a highly dynamic variable, contingent not only upon the stage of development of the relationship (Dwyer *et al.* 1987; Lane 2000), but the continuous reassessment of an actor's performance to build and maintain trust (Ford 1980). Trust evolves over time, yet trust will grow and wane in business-to-business relationships much as it does in interpersonal relationships (Smeltzer 1997).

To understand trust, Lyon (2000) believes that it is necessary to understand how markets operate in different countries and to be sensitive to local path dependencies, rather than to assume there are universal market forces or conditions that can be transplanted everywhere. Similarly, Moore (1999) suggests that it is dangerous to conflate trust over a wide range of social domains and to assume that one is describing an equivalent phenomenon in all contexts. Trust is not a generic phenomenon nor is it similar in all social domains, for the concept of trust is both emotive and of different emotional significance in different cultures.

Anderson and Narus (1990) view trust as the belief that the partner will perform actions that will result in positive outcomes for the firm and will not take unexpected actions that may result in negative outcomes. Moorman, Deshpande and Zaltman (1993) define trust as the willingness to rely on an exchange partner in whom one has confidence.

While both of these definitions view trust as a behavioral intention that reflects reliance on the other partner, both definitions, in part, capture quite different aspects of the construct. Moorman, Deshpande and Zaltman's (1993) definition of trust as a belief, a sentiment or an expectation about an exchange partner, results from the partner's

expertise, reliability and intentionality. This component of trust, which Ganesan (1994) describes as credibility, is based on the extent to which the buyer believes that the supplier has the necessary expertise to perform the activity effectively and reliably.

However, trust also relates to the focal firm's intention to rely on their exchange partner. Ganesan (1994) describes this component as benevolence, because it is based on the extent to which the focal firm believes that its partner has intentions and motives beneficial to it. A benevolent partner will subordinate immediate self-interest for the long-term benefit of both parties and will not take actions that may have a negative impact on the firm (Geyskens *et al.* 1998).

In expanding the concepts developed by Thorelli (1986), Singh and Sirdeshmukh (2000) describe trust as an expectation of behavior. Trust focuses on the belief that an exchange partner will act in a manner that is responsible, with integrity and without injury to the focal firm. While this aspect of trust is also behavioral because it focuses on the partner's tendency to act, there is also a structural component that refers to the trust fostered by mutual hostages (Madhok 1995). When trust exists, buyers and suppliers believe that long-term idiosyncratic investments can be made with limited risk because both parties will refrain from using their power to renege on contracts or to use a change in circumstances to obtain profits in their own favor (Ganesan 1994). Consequently, Heide (1994) considers inter-organizational trust to be a governance mechanism that mitigates opportunism in exchange transactions characterized by uncertainty and dependence. Trust reduces the need for structural mechanisms of control (Achrol 1997) and, over time, both firms learn to become more interdependent (Kumar 1996). However, whether trust develops in the relationship will depend upon how the respective parties feel and behave and the value of the outcomes achieved. When economic outcomes are high, the channel member may attribute a great deal of credit to their partner and the channel members attraction to and trust in their partner will increase (Geyskens *et al.* 1998).

## **Methodology**

Trust was evaluated using eight item measures developed from the literature reported by Anderson and Narus (1990), Crosby *et al.* (1990), Doney and Cannon (1997), Dorsch *et al.* (1998), Ganesan (1994) and Kumar *et al.* (1995).

The data on which this study is based was drawn from five independent studies; three of which were conducted in South East Asia and two in Western Australia. Data for two of the South East Asian studies was collected from detailed personal interviews with potato farmers in the Philippines (Batt 2002) and Vietnam (Batt 2003a). The third study was undertaken in Bali, Indonesia, where the relationship between vegetable farmers and their preferred trading partner was explored (Batt and Parining 2002).

Data for the two Western Australian studies were taken from the results of mail questionnaires sent to all fresh fruit and vegetable growers which sought to examine the nature of the growers relationship with their preferred market agent (Batt 2003b) and to all wine grape growers in WA to examine the nature of the growers relationship with their preferred winery (Batt and Wilson 2001).

Initially, the various item means were compared before each data set was analyzed using principal component analysis (with varimax rotation and Kaiser normalization). Those items with factor loadings below 0.5 or with cross-loadings greater than 0.4 were excluded (Nunnally 1978). Confirmation of the contribution each item made to the resultant factors was achieved by applying the reliability coefficient (Cronbach 1951).

## Results

Quite unexpectedly, it was immediately apparent that trust was more important in exchange transactions in the developing countries (Table 1).

**Table 1. Means of trust measures.**

	South East Asia			Australia	
	TP	I	V	GG	FFV
Trust partner	6.17	6.16	5.36	4.69	4.79
Has necessary expertise	6.12	6.02			5.60
Have confidence	5.97	6.17	5.58	4.56	5.03
Good reputation	5.93	6.46	5.46	4.92	5.03
Believe information	5.74	5.61	5.05	4.69	4.78
Keeps promises	5.58	5.94	5.54	4.54	4.55
Considers my best interests	5.42	5.06	3.81	3.92	4.38
Not always sincere [R]	5.78	4.98	5.53	4.30	4.87
Mean	5.84	5.99	5.25	4.53	4.68

where TP is the Philippines

I is Indonesia

V is Vietnam

GG is grape growers

FFV is fresh fruit and vegetable growers

1 is "I disagree a lot" and 7 is "I agree a lot"

In discussing the World Values Survey, Moore (1999) contends that average levels of trust are higher in the world's better governed and wealthier societies. Invariably, these societies are characterized by the free flow of information and more effective legal and judicial institutions. However, Bachmann (2000) reports that the social norm to trust exchange partners is considerably stronger in Asia than in Europe or North America. Lyon (2000) reports that trust is more important in facilitating exchange in the developing countries. In Ghana, since most small farmers have limited access to legal recourse, they must rely to a much greater extent upon trust as the principal mechanism of market governance. However, while Lyon believes that trust comes from the generalized norms of morality (reciprocity), the various sources of information the farmer uses to evaluate a potential partner's reputation and various social sanctions that include the loss of benefits, damage to reputations and social pressure from the community, in all five studies, the only dimension for which some empirical measure was obtained was reputation.

While Ganesan (1994) differentiates between credibility and benevolence, there is some evidence to suggest that trust is unidimensional. Doney and Cannon (1997) found that they could not discriminate between benevolence and credibility, while Geyskens, Steenkamp and Kumar (1998) debated whether the two dimensions could be measured separately or were better applied as a single global measure. Larzelere and Houston (1980) argue that the dimensions are so interwoven that they are impossible to separate.

To test for the unidimensionality of the construct, principal component analysis was employed. An array of solutions across the five agribusiness sectors emerged (Table 2).

**Table 2. Testing the universality of the trust construct.**

	South East Asia						
	Philippines		Indonesia			Vietnam	
Have confidence	.863		.828			.798	
Has necessary expertise	.736				.937		
Believe information	.720		.649			.855	
Good reputation	.678		.750			.563	
Considers my best interests	.572		.809				.956
Not always sincere		.948		*		.787	
Trust partner	*	*	.760			*	*
Keeps promises	*	*	.759			.856	
Percent variance	50.6	19.9	30.4	19.9	13.9	43.2	18.5
Cumulative variance	50.6	70.5	30.4	50.3	64.2	43.2	61.7
Cronbach's alpha	.766	NA	.793	.501	NA	.846	NA

	Australia	
	GG	FFV
Have confidence	.873	.899
Has necessary expertise		.746
Believe information	.808	.847
Good reputation	.872	.890
Considers my best interests	.859	.857
Not always sincere	*	*
Trust partner	.904	.888
Keeps promises	*	.725
Percent variance	65.9	66.5
Cronbach's alpha	.896	.931

where GG is grape growers  
FFV is fresh fruit and vegetable growers

\* item has been deleted

In both the Philippines and Vietnam, a two-factor solution was extracted, but only three of the item measures (confidence, the belief in the information provided and reputation) were found to load into the same factor. In Indonesia, a three-factor solution emerged which collectively explained 64% of the variance. However, with an alpha coefficient of just 0.5, the second factor was unreliable and only two of the item measures (confidence and reputation) were shared in common with the Philippines and Vietnam.

For the two Australian studies, a single factor was extracted in both cases, with five of the item measures (confidence, reputation, trust, considers best interests and belief in the information provided) appearing in each construct. Furthermore, the reliability of both constructs (.89 and .93 respectively) was observed to be markedly higher than those obtained from the South East Asian studies, providing some evidence that trust, as a construct, has yet to be adequately operationalized in the developing countries.

### **Discussion and conclusion**

Trust is more important in facilitating exchange in the transitional economies (Lyon 2000). Since small farmers have limited access to legal recourse, they must rely to a much greater extent on trust as the principal mechanism of market governance. Trust will operate when farmers have confidence that their trading partner will not act opportunistically. Trust will come from the generalized norms of morality (reciprocity), the various sources of information the farmer uses to evaluate a potential partner's reputation and various social sanctions which include the loss of benefits, damage to reputations and social pressure from the community.

In a market where information about a firm or an individual's trustworthiness is shared among other firms only by personal recommendation, reputation is a form of social collateral that guarantees performance without prior acquaintance (Fafchamps 1996). Concern for one's reputation may be sufficient to ensure compliance and to enable firms to offer credit or take large orders without knowing each other personally. Herbig and Milewicz (1995) view reputation as a customer's estimation of consistency over time, based on an evaluation of their exchange partners willingness and ability to perform an activity repeatedly in a similar fashion. Derived primarily from personal experience, perceptions of past performance may be drawn from the various signaling behaviors a partner undertakes to both develop and maintain its reputation (Fombrun and Shanley 1990). Reputation thus creates expectations, not only about the key attributes of the exchange partner, but also about how the partner will behave in the future.

Trust is acknowledged in economic and organizational theory as the most efficient mechanism for governing transactions (Ouchi 1980). As the number and frequency of exchange increases, so does the importance of reliable modes of trust (Zucker 1986). Zucker describes how institutional trust is a vital precondition in the development of complex economic systems. Institutional trust is tied to formal social structures that generalize beyond a given transaction and beyond specific exchange partners. These institutional structures may be either person specific or firm specific, or based on intermediary mechanisms. The person specific or firm specific types rest upon membership within a subculture where very specific expectations are held. Intermediary mechanisms rest on the legitimate concern that a transaction may not be completed or

fail to produce the expected return without the intervention of some third party that protects the interests of all parties in the exchange.

Luhmann (1979) develops his concept of system trust on the basis that each trusts on the assumption that others trust. System trust, derived from confidence in the authority, reliability and/or legitimacy of power, money and the legal system, will accumulate from continuous positive experiences within the system. Brenkert (2000) suggests that without some minimum level of basic trust between buyers and seller, transactions would prove impossible. Basic trust assumes that all participants will transact using recognized generally acceptable rules, customs or standards.

Sako (1992) describes how competence trust is an essential prerequisite before contemplating any long-term relationship. Competence trust may be attained either by purchasing existing competencies or by investing to create them. However, the option to invest will be exercised only if the returns from such investments can be guaranteed through the creation of goodwill trust. Contractual trust rests on the moral norm of honesty and keeping promises that is inculcated in people through socialization and education. This is the minimal amount of trust that must exist for any civil society to function. Underpinning contractual trust are the social bonds, personal networks and embedded social relationships that enable exchange to take place without prior agreement on all terms and conditions.

Granovetter (1985) considers trust to be based primarily in the social system, where individuals find themselves capable of trusting because of the social norms and networks within which their actions are embedded. Common values and norms of obligation will develop in long-term relationships where trust is present. Bradach and Eccles (1989) see norms of obligation as one of the bases of trust within and between organizations. Common values and norms based on kinship, familiarity, religion, ethnic status or family background will assure solidarity between exchange partners within the network (Zucker 1986). Those who flaunt the rules will be ostracized socially and punished economically (Humphrey and Schmitz 1998).

Doney and Cannon (1997) consider similarity as being shared common interests and values. Actors who perceive their exchange partners as being similar to themselves expect their exchange partners to hold common beliefs about what behaviors and goals are appropriate. However, Doney and Cannon extend this further by including the additional dimension of likability. Exchange partners are more likely to trust someone they like or see as a friend (Swan, Trawick and Silva 1985).

In Ghana, Lyon (2000) reports how trust derived through a common individual, intermediary or guarantor, family linkages and long-term friends, a common ethnic background, attendance at the same church, or the individual's position within the community, is mandatory before traders will enter into any exchange transaction requiring credit. In China, Bjorkman and Kock (1995) describe how trust and the formation of social relationships is a prerequisite for business transactions. Child (2000) describes how trust based relationships within defined family groups protect against opportunism and the very low levels of trust that prevail within Chinese society.

For Fukuyama (1995), trust is an “expectation that arises within a community of regular, honest and cooperative behavior based on commonly shared norms on the part of other members of the community” (p 26). The prevalence of trust within society results in social capital; a construct that Fukuyama uses to describe the extent to which trust permeates an entire society, rather than being confined to a family, a clan or close friends (Lane 2000).

Defined by Putnam (1995) as the “features of social organization such as networks, norms and trust that facilitate coordination and cooperation for mutual benefit”, social capital provides a valuable resource for the conduct of social exchange (Nahapiet and Ghoshal 1998). With the majority of the social capital embedded within networks of mutual acquaintance and recognition, social capital resides and is reinforced by the pattern of linkages and the relationships that are built within the network.

Trust and trustworthiness are central to the concept of social capital (Fukuyama 1995). People who know and trust one another are more likely to cooperate and to find solutions to problems that are mutually acceptable to everyone. Social capital facilitates cooperative behavior and the transfer of information and resources (Sharp and Smith 2003). Social capital makes it possible to achieve desired outcomes that would be impossible without it or could only be achieved at considerable cost. In a sense, social capital facilitates the governance of economic exchange (Annen 2003), reducing the potential for opportunism and the need for costly monitoring processes (Nahapiet and Ghoshal 1998).

From this discussion, there is clear evidence to suggest that trust is a prerequisite for economic exchange. However, within the industrialized countries, trust is so closely related to the basic norms of behavior and social customs that most actors take it for granted until it is violated (Garfinkel 1967:cited in Zucker 1986). Its only when research moves towards the study of relationships in the transitional economies that the scarcity or absence of institutional trust re-emerges.

Humphrey and Schmitz (1998) suggest that the lack of institutional trust in the developing countries is the major obstacle to the establishment of a more effective market economy. When risk cannot be controlled, actors must resort to spot transactions, but this method of conducting business is unwieldy for all but the smallest firms. To operate with any degree of predictability, firms must be able to take and place orders, arrange for the future delivery of goods and services, dissociate payment from the physical delivery of the goods and seek and provide warranty (Fafchamps 1996). Trust is therefore a vital precondition in the development of efficient economic exchange.

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