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**A CONCEPTUAL PAPER ON THE EVOLUTION OF TRUST IN THE
RELATIONSHIP BETWEEN INVESTMENT BANK(ER)S AND THEIR
CLIENTS**

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Abstract

This is a conceptual paper based upon the hypothesis for the doctoral thesis “The evolution of trust in the relationship between investment bank(er)s and their clients”.

The banker-client relationship is one of the most important relationships in the investment banking industry but at the same time it is a relationship which involves substantial agency problems. Though, significant works have been done on trust, almost none of the existing literature focusses on the banker-client relationship where trust plays an important role.

This paper combines the existing literature and proposes a pyramid of trust and blends it with the model of trust and distrust in relationship development. The resultant model attempts to study the gradual evolution of trust from a feeling of indifference or neutrality and will be used as a hypothesis for the doctoral project. By testing the robustness of this model, the doctoral project will attempt to study the gradual evolution of trust in banker-client relationship. The rationale behind using the model as the hypothesis is to test its robustness and to study the process of evolution in banker client relationship.

The proposed model focusses only on trust and provides a framework to study the evolution of trust in the relationship between investment bank(er)s and their clients.

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1.0. Introduction

“The best way to find out if you can trust somebody is to trust them.”

- Ernst Hemmingway

Trust plays a significant role in the business world by facilitating both interpersonal and inter-organizational relationships (Henneberg et al. 2007). The growing interest in building trust between the organizations originates from the belief that trust enhances the performance of a business (Sako & Helper 1998) as it plays an important role in the relationship with the stakeholders (Smitka 1991). The clients regard trust worthiness as one of the most important characteristics of the sellers which can facilitate sales (Hayes & Hartley 1989) and thus it facilitates a business relationship (Plank et al.1999).

Oxford dictionary (2012), defines trust as “firm belief in the reliability, truth, or ability of someone or something”. Though, the concept of trust can be generic in nature, scholars, over the years have divided trust into different categories (For eg: Swan & Nolan 1985, Swan & Trawick 1987, Sako 1997, Perrone et al. 1998, Sako & Helper 1998 i.a.) and have identified various factors influencing trust (For e.g. Ring & Van 1994, Scheer 2012, Vanneste et al. 2014 i.a.).

“Trust is a psychological state comprising of the intention to accept vulnerability based on positive expectations of the intentions or behaviours of other” (Rousseau et al. 1998, p.395). Singh & Sirdeshmukh (2000) examined this definition and threw light upon the two parts of it. Firstly, it relates trust to the “positive expectations about the intentions and behaviours of the exchange partner” (Singh & Sirdeshmukh 2000, p154). Secondly, they related trust with an entity’s intention to “rely on exchange partner accepting the contextual vulnerability” (Singh & Sirdeshmukh 2000, p154) i.e. in a nutshell they referred to the “behavioural conceptualization of trust” (p.154) and identified trust as the “crucial variable” (Singh & Sirdeshmukh 2000, p156) in relationships with high agency problems.

This paper refers to the existing literature and attempts to build a conceptual framework to study the gradual evolution of trust in the relationship between investment bankers and their clients - a relationship involving a high degree of agency problems. The scientific findings generated by this research will add value to academia by placing the foundation stone for further research on the evolution of (dis)trust in the investment banking relationships with high agency problems.

1.1. Why is trust important in investment banking?

Trust is the fundamental cornerstone of co-operation in the business which enhances the performance of the business by enriching the business networks and by playing a pivotal role in the business relationships (Brusco 1986, Dwyer et al.1987, Henneberg et al. 2007).

“The globalization of markets, increased transaction volume and volatility and the introduction of complex products and trading strategies have led capital market and trading activities to an increasingly important (and risk-prone) role at the financial institutions” (Fleuriet 2008). But, the situation took a turn after the financial crisis and a series of scams.

The financial downturn and the scams (E.g. UBS rogue trader scam, Deutsche Bank spying scandal, Societe Generale banking scam, Barclays Libor manipulation scam etc.) have put a note of interrogation on the trustworthiness of investment bank(er)s in the recent years.

Investment banks (e.g. UBS), in the recent years (2012, 2013) have become inclined towards the risk-free businesses. This trend was spotted after bankruptcy and the rogue trader scam (September 2011) after which the “world’s largest wealth manager” focussed on a “risk reduction strategy” to bring back the trust of the clients (as on UBS Annual report 2012, 2013). In spite of the existence of the Basel III regulations, the “risk reduction strategy” has been highlighted during the annual general meetings and the Group Executive Board (GEB) meetings. The investment bank has been addressing these issues for a while now to bring back the trust of their clients.

The relationship between investment bank(er)s and their clients is different from any other buyer seller relationship since the client’s investment risk is not usually shared by the bank or the bankers which essentially means the financial risk is borne by the client only. In return of their advisory services, the bank charges a commission. If the client loses his money the bank does not compensate unless compelled by special circumstances. The role of the bank ends with the advisory service and facilitating the transactions. This phenomenon creates an agency problem as there is a potential conflict of interest between the bank(er) and the client.

It is not uncommon for investment banks to hire investment bankers with targets i.e. the banker gets paid a certain amount of money (as a part of his total compensation) only if he fulfils certain criteria one which is often found to be, generating revenue of a certain value or more. Thus, the two entities (banker and the client) involved in this business relationship have conflicting interests. The bankers’ focus is to generate business (it should be noted that if the client invests on any product no matter how bad it is, there is a revenue generation for the bank even if the investment/product does not yield profit for the client) so that he can achieve his “target” while the client focusses on his return on investment (ROI). Such conflicts of interest lead to agency problems, as a result of which trust emerges as the one of the key aspects of these kinds of business relationships as suggested by Singh & Sirdeshmukh (2000).

1.2. Problem definition: A gap in the existing research

Trust has been the focus of research for a while now (e.g. Sako & Helper 1998, Möllering et al 2004, Bönte 2008) but a significant number of works on trust focus either on interpersonal trust (Plank et al. 1999) or on supplier relationships. Very few existing scholarly works focus on the investment banking industry whereas, in this industry, trust plays a predominant role (esp. in the debt and capital markets).

Perrone (1998) suggests that interpersonal and (inter)organizational trust should not be mixed as these two are two different constructs. But, a successful investment banking relationship includes a blend of these different constructs of trust (e.g. interpersonal/salesperson trust, product trust, (inter)organizational/company trust, performance trust goodwill trust etc. A further explanation on the types of trusts found relevant to the research context will be

provided in the literature review section). Surprisingly, almost none of the existing literature focuses on trust on a banker-client relationship context where trust plays a very important role due to the conflict of interests (agency problems) as suggested by Singh & Sirdeshmukh (2000).

Trust is central in business relationships and forms the basis of loyalty and performance, increasing the ability to adapt to unforeseen changes (Scheer 2012). The circumstances, the agency problems or conflicts of interests (as pointed out in the previous sections), can basically lead the entities (client and the banker) to “actively work” against each other preventing misplaced trust (Scheer 2012) resulting into defensive but well directed good results (Cook et al. 2005). This basically suggests that lack of trust is not always bad for the business or is not the primary ingredient to keep a business relationship from falling apart as suggested by Henneberg et al. (2007).

But, on the other hand if trust is the fundamental component of business relationships as pointed out by different scholars (Dwyer et al. 1987, Sako 1991, Sako & Helper 1998, Singh & Sirdeshmukh 2000), given the ‘volatility and unpredictability’ [the promised returns or the ROI of the client or the performance are dependent upon the external factors which are beyond the reach of both the entities {bank(er) and the client}] of the investment banking industry, the type of clients (governments, corporations, ultra-high net worth individuals), the agency problems and the massive amount of money involved in the deals it, is ‘almost impossible’ to do business without trust as it is one of the key ingredients for a successful relationship with agency problems Singh & Sirdeshmukh (2000),.

In lieu of the above statement, it is also worth noting that in financial industry, it is legally mandatory to have a valid contract in order to do business which brings “contractual trust”, (without which there cannot be a contract as suggested by Sako 1997), within the domain of the research. Salesperson trust (trust on the banker), product trust (the ‘pitch’), company trust (trust on the bank), performance trust (the client’s trust on the performance of the bank, product and the company) is also involved in a banker-client relationship. Thus, this phenomenon triggers the application of different kinds of trusts on the research context.

Another, interesting aspect of banker-client relationship is the relationship between trust and time because, in investment banking industry, it is often found that the clients are ‘attached’ to their bankers (esp. if they have done business for a long time) so much that when the banker moves from one bank to another, the ‘loyal’ clients move their investments to the bank where their trustworthy banker has joined. Similarly, the clients who have shared a ‘long and profitable’ relationship with a certain bank prefer to continue banking with that particular bank of their trust. Either of the former or the latter takes place depending upon the “company trust” (Sako 1997) or the “interpersonal/salesperson trust” (Hawes et al 1989, Swan & Trawick 1987). Usually, these two phenomena takes place after the relationship sustains the test of time to a certain extent.

However, scholars share a varying opinion regarding the interrelation between trust and time. Scholars like Ring & Van (1994) and Vanneste et al. (2014) identifies an increase in trust

with respect to time whereas, Doney & Cannon (1997) and Poppo et al. (2008) identifies a negative relation. The instances put forward by Henneberg et al. (2007) suggest that trust definitely strengthens a business relationship but is not the main component to keep an existing relationship going i.e. there is a neutral relationship between trust and time.

Due to the conflicts of interests in banker-client relationship in investment banking leading to agency problems, varying definitions of trust, the varying opinion of scholars regarding the cause and effect of trust, this “fundamental cornerstone” (Henneberg et al. 2007) of business relationships demands industry specific research. So, it would be worthwhile to study the evolution of trust in the relationship between bank(er) and client which has not been done so far.

1.3. A snapshot of the investment banking (IB) business

In order to understand the relationship between investment bankers and their clients, it’s important to understand the function of investment banks and why is the role of trust important.

“The scope of investment banking include all major capital market activities such as underwriting private placement, M&A, venture capital, market making, proprietary trading, financial engineering, clearing and settlement and financing and money management” (Liaw 1999). They act as intermediaries between/for their clients i.e. individuals, governments, institutions, between themselves or between each of these entities by matching sellers with buyers. These clients can be investors (who not necessarily always invest but can be buyers or sellers also) and issuers (who issue securities on the sell side).

A company/corporation needs money to expand. Investment banks help the corporation to raise the capital by selling the securities to the investors. The investment bank, thus acts as intermediaries between investors i.e. buyers and sellers or between investors and issuers (Fleuriet 2008). They can work either on the buy side or on the sell side which is linked to another very important function of investment bank i.e. to provide advisory service to their clients.

(Fleuriet 2008) pin points the main functions of investment banks are as follows –

- Raising capital
- Trading securities
- Advising on corporate mergers & acquisitions

The following figure exemplifies some of the entities involved in the investment banking business

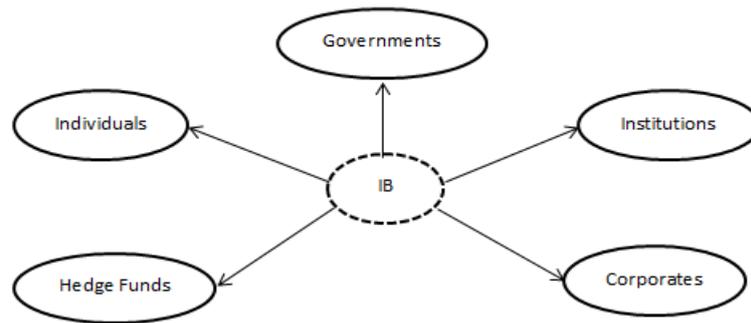


Fig.1 - The main entities in investment banking business

This paper will restrict itself only to the relationship between investment bank(er)s and their clients only on the context of capital market transactions.

2.0. Literature review

The objective of this literature review is to bring into consideration the existing literature on trust (irrespective of the industries) and build the conceptual framework to study the evolution of trust.

Trust is one of the key aspects of co-operation in the business which enhances the performance of the business by enriching the business networks and by playing an important role in the relationship with the stakeholders (Brusco 1986, Dwyer et al. 1987, Sako & Helper 1998, Henneberg et al. 2007 i.a.).

Given the gaps in the existing research (as explained in 1.2 & 1.3) and almost no scholarly work focusses on the evolution of trust in investment banking relationships, the literature review will apply existing scholarly works on the discussed context – the relationship between investment bank(ers) and their clients and by doing so, will try to build a conceptual framework of the hypothesis.

The skeletal framework of the literature review is as follows

- Types of trust relevant to the research context and their congregation
- The hypothesis
 - 1) The pyramid of trust
 - 2) The model of trust and distrust
- Alteration of the hypothesis based on situational analysis
- The final hypothesis

2.1. A pragmatic approach to the existing scholarly works

Trust has been defined in plenty of ways (Plank et al. 1999). Dwyer & Lagace (1986) has conceptualized trust in three ways. The first view regards trust as a generalized expectancy (Rotter 1967) or as a personality trait while the second view revolves round the idea of trust as a “predisposition toward another or belief” (Driscoll 1978) that another party will behave in a manner which is beneficial to the other party. The third view, views trust from a perspective of risking behaviour (Schurr & Ozanne 1985)reflecting a willingness from the buyers part accepting the possibility of being vulnerable on his side of the transaction (Plank et al 1999). These three views basically put forward the concept of trust as a relative phenomenon related to the behavioural conceptualization (Singh & Sirdeshmukh 2000).

Hawes at al. (1989) does not agree on a particular definition of trust, but regards trust as a fundamental platform of a successful buyer seller relationship. It should be noted that the investment banks sell the products to their clients though their bankers, so from a certain point of view, the bankers can be regarded as the seller while the client is the buyer.

Swan & Trawick (1987) points out a ‘set of behaving in particular ways’ and opines that behaving in these ways i.e. being dependable, efficient, customer oriented and friendly can lead the buyer to trust the seller, which can be related to Perrone et al. (1998)’s view that trust is related to performance as well as interpersonal relationship or interpersonal trust (Henneberg et al. 2007) and trusting perceptions (Plank et al. 1999) or behaviours (Singh & Sirdeshmukh 2000).

Planks et al. (1999) points out that the “uni-dimensional” studies on trust “are concentrated purely on interpersonal trust” whereas, the buyers also need to bring into consideration “the obligations or expected functions associated with the product/service itself and the company that stands behind the product/service” i.e. “product trust and “company trust”.

Planks et al. (1999) therefore, divided trust into three types and came up with three individual characteristic features of each type of trust –

- I. Salesperson-trust i.e. the belief that a salesperson will fulfil his obligations as understood by the buyer.(which may be interpersonal trust)
- II. Product-trust i.e. the belief that the product or service will fulfil its functions as comprehended by the buyer.
- III. Company-trust i.e. the belief that the company will fulfil all its obligations as understood by the buyer.”

If we take a look at the type of business of the investment banks, we may say that “trust worthiness” (Hayes & Hartley 1989), may not be restricted to the seller trust worthiness only. The other different types of trust associated on the context of the relationship between the investment bank(er) and their clients are product trust (given the fact that the investment banks provides a wide range of products and services to their clients which yields ROI to the clients), company trust (trust towards the investment bank) and sales-person (interpersonal) trust (trust towards the banker) as suggested by Plank et al. (1999).

A positive decision making of a client may be based up the “belief” (Driscoll 1978) or a generalized expectancy (Rotter 1967) or a “personality trait” (Dwyer & Lagace 1986) that the banker’s advice is ‘agreeable’ and will yield returns for him. The origin of this belief can be “goodwill trust” (Sako 1997, Sako & Helper 1998) on the banker or the bank the banker is working with or both. If we try to look at the ‘causes’ of goodwill trust, we may have to agree with the possibility put forward by Perrone et al. (1998) which advocates the role of performance.

When we talk of performance, it can be the previous performance or track record of the bank(er) which has resulted into interpersonal trust (Henneberg et al. 2007) or company trust (Plank et al. 1999 as on III) or organizational trust or reliance (Henneberg et al. 2007) or all.

Another aspect is personal factors or personal attributes (Rotter 1967). Sometimes the existence of a legal contract (it is mandatory for the bank & the client to have a contract as per law) can also trigger the “personality trait” (Rotter 1967) by giving rise to “contractual trust” which is a state of mind (Sako, 1997).

The above mention theories have been congregated in (Fig.2) which consists of salesperson (interpersonal) trust, product trust and company trust as suggested by Plank et al (1999) and mentioned under I, II and III and contractual trust, competency/performance trust and goodwill trust as suggested by Sako (1997) and Sako & Helper (1998).

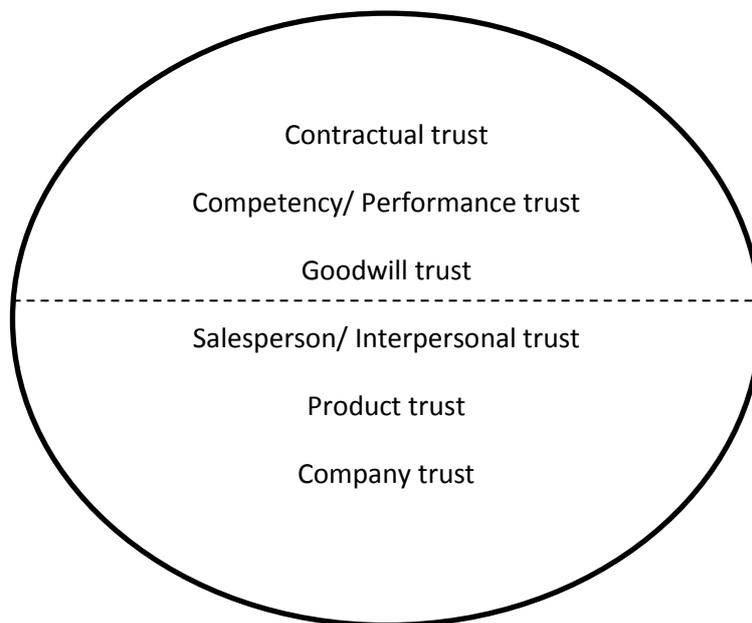


Fig 2: A generic view of trust in investment banking relationship

In Fig: 2, we have 6 different types of trust found relevant to the research context. The rationale behind bringing these 6 types of trusts is that these types of trust are conjoined and form the constructs of trust in investment banking. Since, this is a conceptual paper and the object of the paper is to provide a skeletal framework for the doctoral thesis, I would try to apply a pragmatic approach on Fig.2.

2.2. The congregation of different types of trust

2.2.1. Contractual trust vs. salesperson, company and product trust

Sako (1997) considers honesty and promise keeping as the building blocks of contractual trust which is a mind set or a particular behavioural trait (Rotter 1967) or a behavioural concept (Singh & Sirdeshmukh 2000) but the concept becomes comparatively 'elaborate' on the context of investment banking.

A contract in a bank-client relationship expands to the product(s), the obligations of the bank/company as well the obligations by the employee(s) of the bank. For e.g.: An investment banking contract specifies that the bank as well as the bank(er) will be legally obliged to perform his duties i.e. serving the clients. On occasions the contracts may be tailored depending upon the type of product the customer is opting for. Thus, from a certain point of view, to a client, a contract(s) serves as a 'safeguard' from three kinds of potential violators - the bank, the banker and the product (on certain occasions only as it does not promise any ROI from the product) which relates these three entities with company trust, salesperson trust and product trust respectively.

This question may be raised, if trust already exists, why the parties need a contract. There can be two answers to this question. Firstly, the mere fact that something has been promised to someone "...creates no legal duty and makes no legal remedy available in case of non-performance. To be enforceable, the promised must be accompanied by some other factor" (Barnett 1986). In this case the other factor is the contract. Secondly, as explained before, it is a legal necessity to do business.

The inclusion of "product trust" on this context can be debatable given the fact that the bank does not share the client's risk of investment. The bank does not promise a certain amount or any kind of return to their client but contract acts like a 'guarantee' which ensures that certain standards of the products are met.

Thus, from a certain point of view, adding to Sako (1997)'s opinion, from an investment banking point of view, we can probably say that contractual trust is a mind-set resting upon the honesty and promise keeping of the bank, the banker(s) and the product which makes salesperson trust, product trust and company trust the constructs of contractual trust.

2.2.2. Competency/Performance trust vs. salesperson, company and product trust

Competency trust demands a shared understanding of performance standards and conduct which can be developed over a period of time by "demonstrating trustworthiness" (Sako 1997).

Like contractual trust, performance trust can also be related to salesperson trust, company trust and product trust.

Investment banks depend upon their bankers to a considerable extent for new customer acquisitions. Leading investment banks like UBS, RBS, BAML etc. pay millions as guarantee

and targets to recruit the top bankers with the expectation that these bankers will bring their loyal ultra-high net worth clients along with them.

These clients are loyal to the seller i.e. the investment banker more than they are loyal to the company i.e. the bank. Therefore, when the banker changes his job and moves from one bank to another, they also move their investments to the banker's new employer. This may be due to the successful track record of the banker, due to interpersonal/salesperson trust or the trust in the performance of the banker. Thus, salesperson trust falls within the periphery of competency/performance trust.

(Hawes & Barnhouse 1987) combines personal & corporate level relationships by opining that buyers are keener to transact on an occasion where lower degree of personal and corporate risk is present. Thus on this context, credibility (Simpson & Kahler 1981) is not solely concerned with personal level trust but also trust of the client towards an organization. But on occasions, the credibility of the organization may lead to the credibility of the salesperson. For eg: The fact that a certain banker from UBS may be perceived as credible by a client because he associates the image of UBS with credibility. But at the same time it can be perceived in a negative way also, as an organization lacking goodwill can create a doubt in the mind of the client about the credibility of a certain banker just because he is associated with that particular organization.

In investment banks, sometimes it's found that some clients prefer a particular sector (e.g. health care, environment etc.). This may be because of several reasons like high rate of return, risk associated with the investment etc. Sometimes, they even prefer banks that are big in those sectors. This group of clients trust the industry i.e. products specific to certain industry, they invest in. These are the products which the investment banks provide to their clients which associated this phenomenon with product trust and the trust on the performance of a product on the research domain.

Some clients trust the investment bank more than they trust the bankers. The origin of this trust on the bank/organization can be the minds-set that any employee from a certain bank will provide a certain standard of service. Basically, they associate the bank with good performance (Hawes et al 1989).

Let us take an example on the context. A passenger boarding a flight usually doesn't ask for the qualification of the pilot while boarding. If he is taking Lufthansa, he "perceives" (Hawes et al 1989) that the pilot flying a Lufthansa flight is qualified & skilled enough to safely drop him at his destination. So, in a nutshell, the passenger trusts the pilot because he is working for Lufthansa. On this occasion, the organizational trust (trust on Lufthansa) or credibility precedes the trust on a particular pilot.

Taking a pragmatic approach on the combined opinions of Hawes & Barnhouse (1987) and Hawes et al. (1989), we can probably say that personal level trust (banker), product trust and trust towards the organization/comapny (bank) are conjoined in a certain sense and thus falls under the general periphery of performance trust.

2.2.3. Goodwill trust vs. salesperson, company and product trust and their congregation

Sako (1997) opines that goodwill trust rests “.....only on the consensus of principal and fairness”. As discussed on the previous two occasions, a client may trust a banker’s goodwill (this is another rationale behind the investment banks paying a fortune to hire the top bankers with goodwill), goodwill of a particular bank (e.g. the belief of a client that any banker coming from a certain bank will deliver) or goodwill of a certain product or all of these.

Thus, the above mentioned rationale suggests the inclusion of salesperson trust, company trust and product trust within the periphery of goodwill trust.

Based on 2.2.1, 2.2.2, and 2.2.3 we can perhaps say that on an investment banking context each of contractual trust, competency/performance trust and goodwill trust is composed of three building blocks – salesperson trust, product trust and company trust (Fig 5).

	Contractual trust	Performance trust	Goodwill trust
Salesperson trust	X	X	X
Product trust	X	X	X
Company trust	X	X	X

Fig 3: Congregation of different types of trust

Contractual, performance and goodwill trust would be used as constructs of the pyramid (discussed in the later sections) which will be used as a part of the hypothesis in order to study the evolution of trust.

2.3. Trust vs. time

Studying the evolution of trust is similar to studying the evolution of life where the aspect of time needs to be brought into consideration esp. in the scenario of investment banking where the clients reap the benefits of their investments over a period of time and their decision to do further business with the bank(er)s sometimes depends upon the relation between trust and time.

Be it organizational trust or trust in buyer seller relationships, over the years, scholars have related time with trust (For e.g. Ring & Van 1994, Gulati & Sytch 2008, Poppo at al.2008, Vanneste et al. 2014). Empirical studies measuring trust (for e.g. Ring & Van 1994, Gulati & Sytch 2008), have identified an increase in trust with the duration of a relationship (Ring & Van 1994, Gulati & Sytch 2008, Vanneste et al. 2014).

However, no relationship between trust and time has been identified by scholars like Doney & Cannon (1997), while Poppo at al.(2008) has identified a negative relation.

Mouzas et al. (2007) cites the example of the landmark case between Marks & Spencer vs. Baird where a 30 year old trust between the buyer (Marks & Spencer) and seller (Baird) failed to prevent the relationship from falling apart which basically says that there is no relationship between trust and time echoing the opinion of Doney & Cannon (1997). The variation of opinions makes it challenging to identify the relation between trust and time and how it has evolved over time.

On the context of long term relationships, Ganeshan (1994) suggests environmental diversity and volatility, transaction specific investments, dependence of the buyer upon the seller i.e. reliance (Mouzas et al. 2007), perception of dependence of the buyer upon the seller, reputation of the seller, buyers experience and satisfaction with the seller, sellers credibility and benevolence as the constructs of a long term business relationship, which relates to the salesperson trust, company trust, product trust, contractual trust, performance trust and goodwill trust which have been discussed in the previous sections.

The congregation of different types of trusts and the relationship between trust and time will be used in the hypothesis which will be covered in the next section.

3.0. The hypothesis

In the previous sections, different types of trusts relevant to the research context and the aspect of time have been covered. This section will bring into consideration the concepts discussed in the previous sections and cover the hypothesis which is the focus of this conceptual paper.

The hypothesis broadly composed of two parts – the pyramid and the model of trust and distrust in relationship development (Scheer 2012). The final hypothesis is a blend of the two above mentioned models. The rationale of blending the two models will be covered under a subsection of the hypothesis.

The methodological structure of the hypothesis has been explained by the following figure.

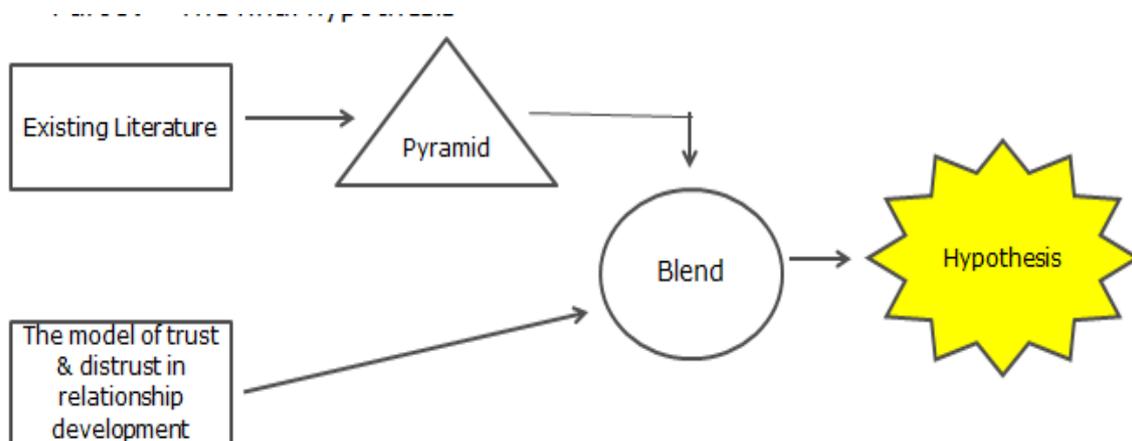


Fig: 4.The methodological structure of the hypothesis

3.1. The pyramid of trust

In order to study, the evolution of trust in investment banking relationships, this paper proposes the pyramid of trust which is expected to capture the evolution of trust, from a feeling of indifference. At a later stage, this section will bring into consideration, two discreet situations where the pyramid will be analysed under the lens of situational analysis.

The pyramid of trust (Fig.5) is based on the following assumptions

- 1) The client has a feeling of indifference (neither trust nor distrust) towards the banker and his employer as he is meeting the person for the first time. He has neither done business with the banker and his employer nor has the bank (er) been recommended by none he knows. At that point, he is at the bottom of the pyramid. The behavioural aspect (trusting or not trusting) of the individual has not been brought into consideration.
- 2) The pyramid is based upon the assumption that the bank(er)'s performance has been agreeable during a certain period of time.
- 3) The adverse circumstances which can ruin a relationship (e.g. significant financial loss, scams) did not take place and the relation between the client and the bank(er) continued.
- 4) Contractual trust is a mind-set (Sako 1997) and a point of indifference (neither trust nor distrust) while goodwill trust is the point of high trust.

Based up the works of Sako (1997, 1999), Sako & Helper (1998), Perrone et al. (1998), Ring & Van (1994) and Vanneste et al. (2014), this paper proposes the pyramid of trust (Fig.5) on the context of the evolution of trust in the relationship between investment bank(er)s and their clients.

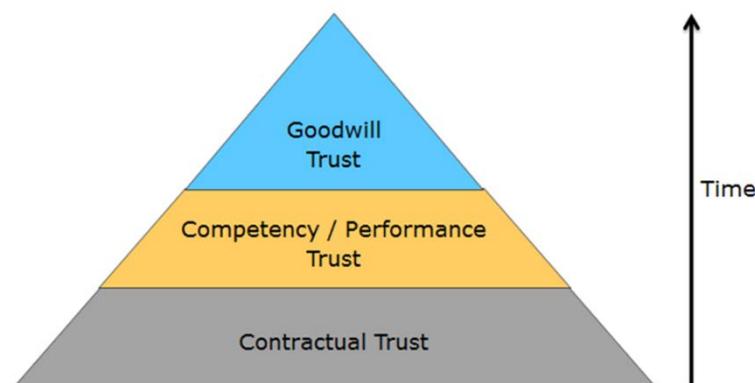


Fig: 5.The pyramid of trust

As shown in the above figure, the pyramid of trust comprises of three building blocks – contractual trust (Sako 1997, 1999; Sako & Helper 1998), competency or performance trust (Sako 1997, 1999; Perrone et al. 1998; Sako & Helper 1998) and goodwill trust (Sako 1997, 1999; Sako & Helper 1998). Each of these building blocks, consists of salesperson, product and company trust (Plank et al.1999) embedded in them (refer to Fig 3).

The pyramid attempts to capture the evolution of trust from a scratch i.e. from the point of indifference (contractual trust) to the point of high trust (goodwill trust).

Based upon the above mentioned assumptions, the pyramid hypothesizes that if a client meets a banker for the first time and decides to invest, he has a feeling of indifference towards the seller i.e. the bank(er). Due to this feeling of indifference, the client seeks for a ‘safeguard’ which is provided by the contract. In other words, the client trusts the contract and ‘believes’ that the contract will enforce the bank(er) to perform his duty as promised. At this stage, the client’s psyche lies within the zone of contractual trust which has been regarded as a mind-set by Sako (1997). This marks the beginning of the business relationship.

After doing business for a certain period of time, if the client finds the performance of the bank(er) agreeable, he graduates to the zone of performance trust. Moving into the zone of performance trust means that the clients ‘feeling of indifference’ has been transformed into a state of “courtship” (Scheer 2012) where he has the belief in the performance of the bank(er) or in the product he sells or both.

Goodwill trust is the highest strata of the pyramid which is like the ‘holy grail’ of a business relationship where there is high trust among the entities and both parties believe that the other will act to the best of their interest. The client can move to this level after doing business with the bank(er) for a certain amount of time (as discussed before the performance of the banker has been agreeable to the client during all these years) as suggested by Ring & Van (1994) and Vanneste et al. (2008).

The client may also reach the goodwill trust ‘zone’ due to exceptional situations which will be discussed under the subsection “The un-static nature of the pyramid”.

Thus, the pyramid attempts to capture the gradual evolution of trust from a feeling of indifference (contractual trust) to high trust (goodwill trust) with respect to time. The nature of the pyramid is however not static. Due to the conceptual nature of this paper, we will try to cover a part of the variable nature of the pyramid under the lens of two distinct situations.

3.2. The un-static nature of the pyramid

The pyramid of trust discussed in the previous section attempts to capture trust from its origin and will be used as a part of the main hypothesis.

However, the pyramid is not static in nature as there can be situations where one or more building blocks of the pyramid are absent. The following section will deal with one of the distinct situations where the pyramid may be altered.

3.2.1. The power of recommendation/network approach

“A company’s relationships are prime assets in this process, and their effective utilization is critical to success in implementing new initiatives” (Mouzas & Naude 2007 p 62). From the bank’s perspective, network mobilization can be considered as the outcome of utilizing their relationships to move the clients in order to make them work by their own plans (as suggested by Mouzas & Naude 2007). Given the fact, that organizations are also the clients of the investment banks, it might be worthwhile to apply the network approach (Ha°kansson &

Snehota 1990) and network mobilization (Mouzas & Naude 2007) on this context which can also be applied on the context of “3D” relationships (Lax & Sebenius 2003).

The network approach assumes that none of the firms is an island (Ha°kansson & Snehota 1990, Mouzas & Naude 2007) and “they can only achieve their objectives” (Mouzas & Naude 2007) by means of exchange relationships with other firms, rather than in isolation. The network approach views the markets as networks of exchange relationships (Ha°kansson & Snehota 1990; Johanson & Mattsson 1992; Ha°kansson & Snehota 1995; Mouzas & Araujo 2000). Thus, in other words, probably we can say that exchange relationships are basically the means to achieve the goals of the firms.

“The network approach is sensitive to developments over time; it assumes that organizations transform resources to carry out transactions linked by relationships...”, cumulative effect of which determines the position of the organization where organizations “interactively shape and develop rules which constitute and govern their business relationships” (Mouzas & Naude 2007 p 63) leading to “interdependent symbiosis” (Araujo & Mouzas 1994).

Lax & Sebenius (2003) points out some examples where the third parties who are not directly involved in a certain transactions or deals, help to influence the fate of a business relationship. As an example, they gave the example of the middle-east negotiations where Egypt helped to improve the image of the US among the Arab nations (esp. the oil producing ones) by building trust and turned the middle-east negotiations to a success. Egypt was not a direct party to this deal but was dependent upon Israel who used to supply them with territory. Israel on the other hand received substantial financial and military aid from the US and thus was dependent upon them (Lax & Sebenius 2003).

From the above example and the discussed theory we find that the recommendation of a certain person or entity is capable of ‘building trust’. In this case it was the recommendation by Egypt which helped to develop trust between the two parties US and the Arab nations.

In academia also, if a potential research candidate is recommended to a certain professor by his colleagues, the professor may feel more convinced about the abilities/performance of the student. These example shows that third party influence can have an impact upon someone’s perception. Let us try to apply this ‘idea’ to the context of trust evolution in investment banking.

If a certain bank(er) is recommended to a client by a third person (may be a friend or family member) whose opinion is valued by the client, the client may not have the feeling of indifference i.e. without contractual trust (Fig. 6) as the client already ‘values’ the opinion of the person who recommended the bank(er) and ‘believes’ that the performance of the bank(er) would be agreeable. However, as part of the legal formality the parties will have a contract but since contractual trust is a mind set (Sako 1997) we can probably say that the lowest strata of the pyramid may not be present.

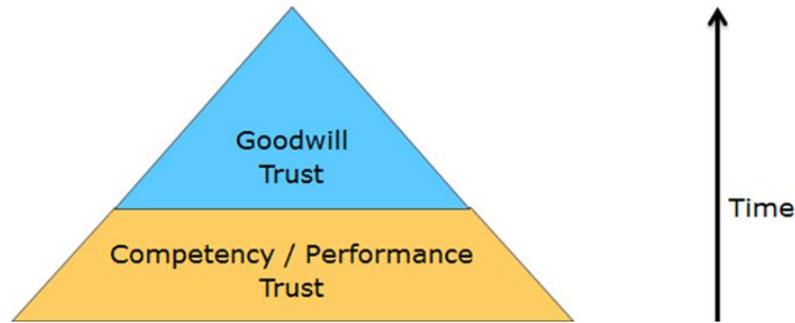


Fig: 6

In certain cases of recommendations (depending upon the relationship between the client and the recommender), the new relationship may start off with goodwill trust i.e. the client already have high trust upon the bank(er) because he has been recommended by a certain person (as suggested in the cases by Lax & Sebenius 2003). However, whether the bank(er) will be able to retain his trust in due course of time or not, is a different question over all. In these two cases the focus shifts from evolution of trust from a scratch to the retaining of trust and ‘upgrading it’ as the trust of one individual is being ‘transferred’ to another through recommendation.

It is interesting to note that since the network is sensitive to time (Mouzas & Naude 2004) i.e. the trust/relationships are sensitive to time (Ring & Van 1994, Gulati & Sytch 2008, Poppo at al.2008, Vanneste et al. 2014), there is a probability that turbulence(s) (for eg: market crash, scams, significant losses or other external factors) may lead to decline of the impact of the network i.e. the client may lose his trust (performance/goodwill) on the bank(er) or his distrust towards a certain bank may override interpersonal trust (trust towards a banker) .

3.2.2. Impact of recommendation agents

“The rapid growth of the Internet as an information medium has given rise to "infomediaries" that help aid consumers in making decisions” (Swaminathan 2003). As per law, the banks are supposed to declare all the transactions at the year end. Annual reports can be termed as the report card for any company. The annual reports give a potential client an idea about the situation of the bank which may ‘develop’ his perception towards trust and influence his decision of whether to trust or not. It provides the client with an overview of how the bank is abiding by the rules and regulations of the financial market (FCA, FSA, Basel III etc.) and the bank’s future strategy.

Sometimes, investment banks use the annual report as a marketing tool. Having a look at certain banks’ background a potential client may have certain perception about the bank which may act as a catalyst in ‘shaping’ the mind of a client leading to (dis)trust. This may help in developing the company trust. For e.g. A client prone to comparatively less risky investments may choose UBS when he finds out that the bank is avoiding the risky businesses.

3.3. The model of trust & distrust in relationship building

The pyramid of trust has been constructed to capture the evolution of trust from a period of ‘a feeling of indifference’ to ‘high trust’ in the relationship between the investment bank(er)s and their clients.

The pyramid brings into consideration the aspect of time but fails to explain the gradual change in the client’s behaviour and the evolution of trust or the behaviour (Singh & Sirdeshmukh 2000) of a client when he is in the zone of performance/goodwill trust? Thus, the need of a model which identifies the change in the behaviour of the client and explains the gradual evolution of trust while he moves from one zone to the other becomes evident. In order to cover up that gap, Scheer's (2012) model of “trust and distrust in relationship development” has been brought into consideration.

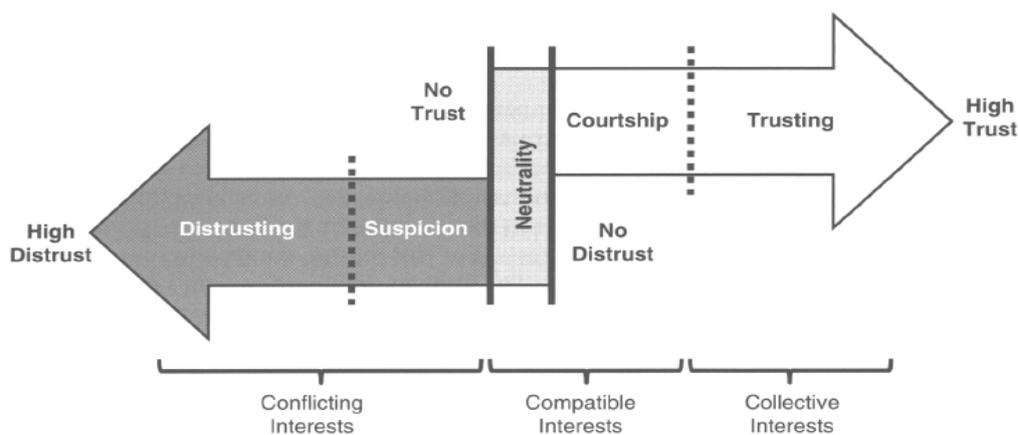


Fig:7 Model of trust and distrust in relationship development (Source: Scheer 2012 p 340)

Fig.7 juxtaposes trust and distrust and “reveals the insights into relationship development” Scheer (2012 p339). The model has been tailored to suite the investment banking context.

There are two rationales behind not using only Scheer’s (2012) model to study the evolution of trust. Firstly, the model has been put forward on the context of B2B relationships which are different from investment banking relationships on many aspects (refer to 1.1). Hence, the model has been tailored for the convenience of the research. Secondly, the model lacks the element of time which is essential to study the evolution of trust.

A ‘small degree’ of trust may exist [maybe because of the recommendation agents (ref. to section 3.2.1 and 3.2.2)] along with a ‘low level of distrust’ (Scheer 2012) which basically leads to a feeling of indifference or neutrality. At this stage the parties may have “reputational information about each other, but uncertainty is great and expectations are modest” but they have compatible interests which “dominates initial interactions reducing agency problems ” Scheer (2012 p339).

If the result of initial dealings (at zone of neutrality or the point of indifference) reveals opportunism (Williamson 1975) then the feeling of indifference may result into suspicion or no trust which is a “transitional state” because if the concerns of the client are not taken care

of, the relationship will lead to “high distrust” where the client will start (dis)trusting the bank(er) and the relationship is not likely to survive (Scheer 2012).

Perception of alignment by the both parties without desiring a closer relationship may result into a state of “stable neutrality” (Scheer 2012) in which case the relationship will not progress to the state of courtship where a higher degree of “reliance” (Henneberg et al. 2007) is required (Scheer 2012). This reliance is essential to carry forward the relationship to continue (Henneberg et al. 2007) to the next level. “Courtship is a transitory state” (Scheer 2012 p340). If any or both or either of the entities (client and the banker) is not interested in a deeper relationship, the relationship may settle at stable neutrality (Scheer 2012).

“Acting on trust when trust is reciprocated can lead to successful co-operation and hence to mutual benefit and potentially to significant gain” (Ullmann 2002 p533). Over a period of time a history of mutually benefitting or favourable interactions between the entities (client and the banker) or “shadow of the past” ((Poppo et al. 2008 as on Scheer 2012 p341), serves as the foundation stone for the greater trust, reliance (Henneberg et al.2007) and confidence resulting into high trust or a trusting relationship (Scheer 2012).

3.4. The final hypothesis

The combination of pyramid of trust (Fig.5) and the model of trust and distrust in relationship development (Fig.7) was required to apply the models in the back ground of the research because both the models have their own limitations.

The combination of the models (Fig 8) has ensured that both time aspect as well as the gradual evolution of (dis)trust are captured in the resultant models which is essential to study the evolution of (dis)trust in the relationship between investment bank(er)s and their clients.

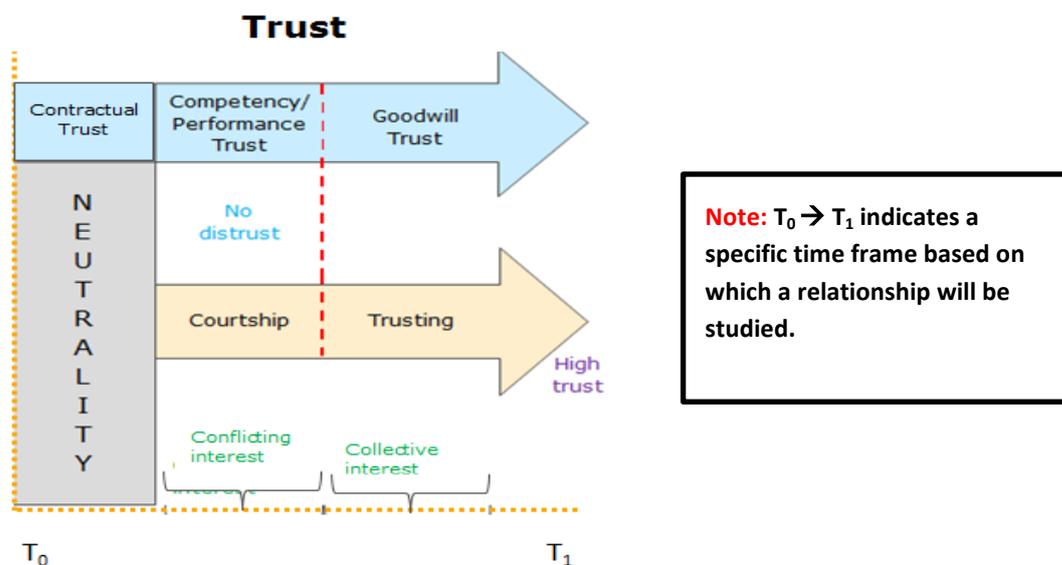


Fig 8 - The conceptual framework of the evolution of trust in the relationship between investment bankers and their clients

In Fig 8, “contractual trust” has been matched with “neutrality” while “competency trust” and “goodwill trust” has been matched with “courtship” and “trusting” respectively. Goodwill trust has been assumed to be the last stage of evolution where there is high trust between the client and the banker. This way, it relates to the changing behaviour of the client and also captures the gradual evolution of trust.

This model (Fig 8) proposes a gradual evolution of trust in a certain way and this is the hypothesis for the doctoral thesis. The rationale behind using this model as the hypothesis is to test its robustness and find out if the evolution in a banker client relationship actually takes place in a way proposed by the model. If the model fails the robustness test, the thesis will identify the reasons of failure and study the actual process of the evolution of trust in a banker-client relationship.

4.0. Limitations and future research

The literature review started with 6 types of trust (salesperson, company, product, contractual, performance and goodwill) and was scaled down to 3 types of trust i.e. contractual, performance and goodwill trust. Through, it has been said that contractual trust, performance trust and goodwill trust has salesperson trust, product trust and company trust embedded in each of them(refer to fig. 3), the conceptual framework does not explain the proportion of salesperson trust, company trust and product trust in contractual, performance and goodwill trust.

The models also lack the explanation of the specific parameters or circumstances under which a client moves from once zone of trust to another. This issue will be taken care of by simulated incidents during the data collection and analysis.

The doctoral project "the evolution of trust in the relationship between investment bankers and their clients" focuses only upon the evolution of trust. Therefore, a part of Scheer's(2012) model has been considered. Studying the evolution of distrust from the zone of neutrality has been excluded from the domain of this research project. However, it may be worthwhile to look at the evolution of distrust in relationships with high agency problems such as the relationship between the bank(er) and their clients.

This article is not only an attempt to study the evolution of trust but also to lay the foundation stone to study the evolution of distrust which will benefit not only academia but also the investment banking industry in long or short run.

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