Facing the Trust Gap: Measuring and Building Trust in Organizations

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St. Gallen, November 13, 2006

The President

Prof. Ernst Mohr, PhD
**Foreword**

My interest in the field of trust management developed in 1998 while I was studying international management with Professor Arvind Parkhe (Kelley School of Business, Indiana University). At the time, trust had not yet become a fashionable topic. The situation changed markedly after the recent spate of massive corporate scandals, most notably Enron and Parmalat, revealed a dearth of trust, deplored by many (Putnam, 2000; Turnbull, 2002).

Since I had studied business and political science, I was not particularly surprised by the glaring trust decreases. It has always struck me that both fields are taught as if totally disconnected from ethical reflection. Basic philosophical and moral considerations are not thought to be part of practical training. Hence, few managers concern themselves with values other than monetary ones and it seems intuitive that trust decreases would be a logical consequence.

It appears that the influence of an amoral economic philosophy is still on the rise (see Röttgers 1998, on the ‘economisation’ of life) and, as if in a self-fulfilling prophecy, individuals are increasingly behaving in a utility driven manner, often short-sightedly and even treacherously, opportunistic and unethical (see v. Oetinger 2004). Thus, the importance of societal values such as trust, love and respect is diminishing (see Stiglitz 2004). If these values are to be recovered, especially if trust in corporate organizations is to be regained, it is clear that the system needs to change. This change can be initiated from the outside through regulation or, preferably, from within the system, via the notion of enlightened self-interest.

The goal for this dissertation is to devise a tool, the *trust management framework*, which supports such change from within the system. By measuring stakeholder trust values on a regular basis, corporate boards can become aware of trust as a key enabler for their long-term success. By using this framework, corporate boards can initiate decisions and changes from within their organizations.

The present work evolved during my time as a doctoral student at the University of St. Gallen (HSG), Switzerland, and as a visiting fellow at the Graduate School of Arts and Sciences at Harvard University and at Harvard Business School (HBS). I would like to express my appreciation, thanks and gratitude to everybody who supported me in this research endeavor.

First of all I thank Prof. Dr. Martin Hilb, I-FPM (HSG) for accepting me as his doctoral student and encouraging a rather unusual topic as a dissertation. His assistance and support were essential for the completion of this work and I deeply appreciate the enthusiasm, positive attitude, and accessibility he demonstrated during this time.
I am also very grateful for the support of Prof. Dr. Emil Walter-Busch, who directed my empirical research efforts. I highly welcomed his guidance and expertise and want especially to thank him for his support of my stay at the ICPSR, University of Michigan, which equipped me with the necessary methodological know-how for this research.

I also want to thank Prof. Deepak Malhotra, HBS, who helped me with intensive feedback in the earlier stages of my work and invited me for further collaboration, which allowed me to experience the unique atmosphere at Harvard. I deeply value his concise comments and guidance during my stay as a visiting fellow.

I also want to thank the following researchers for their support, expertise and inspiration: Kathleen Ellis, Aneil Mishra, Lynn Sharp Paine, Pamela Shockley-Zalabak, Megan Tschannen-Moran, and Chris Winship. They all gave me valuable feedback, insight and encouragement.

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Cambridge, November 2006

Michael A. Pirson
**Abstract**

Trust is commonly seen as a key enabler of cooperation, motivation, innovation and processes of transformation. However, the disclosures following the collapse of *Enron* and other companies contributed to a further decline of trust in business organizations. In a globalizing world where complexity seems to increase exponentially, more trust is not only needed but must be regarded as a strategic resource. Today, many organizations are facing a trust gap that will hinder further organizational development. This dissertation seeks to identify theoretical and practical answers to the problem of how corporate boards can mitigate the current trust crisis and thus ensure sustainable organizational development.

After delineating the research problem in depth, the author presents theoretical concepts that will further enable stakeholder trust management (corporate governance and stakeholder management). Subsequently, the concept of trust is analyzed in detail and potential inroads for trust management are identified.

Based on the literature and interview research, a survey with 2,053 respondents from four organizations and eight stakeholder groups was conducted. The data analysis provides support for a comprehensive stakeholder trust measurement. After further review of the literature and an analysis of 32 semi-structured interviews with respondents from five stakeholder groups, organizational trust hazards and trust enablers were identified. These can serve as the basis for systematic trust building.

Combining these findings, an Integrated Stakeholder Trust Management Framework (ISTMAF) is proposed that will: 1) allow corporate boards to measure and monitor stakeholder trust and thus sensitize the organization to the issue and 2) enable the board to generate decisions to restore trust and reflect on potential decisions’ trust-breaking or trust-building capacity.

The research suggests using ISTMAF as a stand-alone tool or integrating it into corporate governance mechanisms in conjunction with the balanced scorecard or risk management models. By employing ISTMAF in this manner, boards can redirect their attention to tackling the task of restoring organizational trust and securing long-term corporate survival.
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Abbreviations

BSC: Balanced Scorecard
CFA: Confirmatory Factor Analysis
CG: Corporate Governance
CRM: Customer Relationship Management
CSR: Corporate Social Responsibility
EFA: Exploratory Factor Analysis
EU: European Union
HR: Human Resources
ISTMAF: Integrated Stakeholder Trust Management Framework
OTP: Organizational Trust Profile
UN: United Nations
US: United States
WEF: World Economic Forum
We perceive trust like air, only when it is scarce or polluted

1 Introduction

There is something rotten in American corporate governance systems. The ... investor has been violated and the capitalistic system undermined. …trust and confidence in those who run the companies, the boards, the auditors and their lawyers is shattered (Peters, 2002, p.4).

The disclosures following the collapse of Enron at the end of 2001 sent shock waves throughout the world of corporate governance. Few could believe manipulation was endemic in one of the largest and most successful corporations in the world. Investors and other stakeholders’ trust in the corporate governance system was destroyed with the ensuing scandals of Arthur Andersen, Tyco, WorldCom, Global Crossing, Adelphia Communications, and Parmalat.

Scholars and practitioners acknowledge that capitalism has developed self-destructive forces (Tyler, 2000; von Oetinger, 2004). It is argued that capitalism is based on trust, but from Enron to Parmalat proponents of capitalism have destroyed it, demonstrating that short-term gains were more important to many top managers than the maintenance of trust. In response, Bolko von Oetinger, head of Boston Consulting Group’s strategy think tank, has therefore called for the reestablishment of trust to ‘save capitalism’ (von Oetinger, 2004, p.60).

In the following I will argue that: trust in times of globalization and modernization is becoming ever more relevant for organizations and that trust in organizations is steadily declining. Thus, I claim that a trust gap has emerged, which poses a serious impediment to organizations’ future growth and development. For organizations in general but especially for businesses, this problem is extremely relevant and much can be learned from current research. Hence, my research objective is to ascertain how organizational leadership can deal with the current trust crisis and rebuild a sustainable base for continuing success.

After introducing the research problem, I will outline the research approach, the structure of the dissertation, and delineate the basic concepts employed.
1.1 The increasing relevance of trust

Trust is commonly seen as the basis for a successful human interaction and a means to reduce complexity (Fukuyama, 1995; Luhmann, 2000). Society is currently experiencing increasing complexity because of liberalization on a political level and globalization on an economic one (Ohmae, 2005).

Political and legal systems are converging and assimilating (e.g. WTO, EU), thus opening unprecedented options for interaction. In addition, information technology and the Internet have increased options for communication and possibilities that strangers meet (Dervitsiotis, 2003). Within organizations trust-based teams are replacing power-based hierarchies (Rousseau, Sitkin, Burt and Camerer, 1998; Tyler, 2003), and the quality and intensity of relationships at the workplace is changing. As trust is the lubricant for thriving interaction and communication, it is becoming more and more relevant for organizational success (Parkhe, 1998; Child, 2001).

Trust is often understood as a behavior by one party permitting itself to become vulnerable to another party based on expectations of competence, benevolence and integrity (Mayer, Davis and Schoorman, 1995). Research widely acknowledges trust as a key enabler (Shaw, 1997) of cooperative behavior (Hennart, 1988; Morgan and Hunt, 1994; Noteboom, 1996; Parkhe, 1998; Lewis, 1999; Brower, Schoorman and Tan, 2000; Child, 2001; Chami and Fullenkamp, 2002; Boersma, Buckley and Ghauri, 2003), commitment and motivation (Ganesan, 1994; Lewis, 1999; Osterloh and Frey, 2000; Sprenger, 2002), creativity, innovation and knowledge transfer (e.g. McAllister, 1995; Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998; Osterloh and Frey, 2000; Clegg, Unsworth, Epitropaki and Parker, 2002; Politis, 2003; Holste and Fields, 2005), and successful organizational transformations (Scott, 1980; Miles, Snow, J. A. Mathews, and and Coleman, 1997; Nieder, 1997; Rousseau et al., 1998; Winand and Pohl, 1998; Einwiller, 2003; Grabner-Kräuter and Kaluschka, 2003; Lusch, O'Brien and Sindhav, 2003).

In the following I will briefly outline the consequences trust has on cooperation, motivation, innovation and transformation.
1.1.1 Trust as a basis for cooperation

The modern global economy is characterized by a need to collaborate effectively across national boundaries. This is as true of international alliances and networks between firms as it is of teams within companies that work across cultural and geographic boundaries. The old model of a company performing all or most value-chain activities in-house applies less and less. During the past decade, the wave of global mergers, acquisitions and strategic alliances, as well as the development of global networks have multiplied occasions when such collaboration is necessary (Parkhe, 1998). At the same time, multinational corporations are increasingly locating key activities, such as new product development, where highly trained personnel are available. Consequently, they are relying more on the use of teams to bring such personnel together to carry out new projects, and generally to pool their knowledge and experience. Ensuring that global collaboration works successfully is a prime requirement (Child, 2001).

Tyler (2003) argues that while cooperation has always been important several trends have led to lasting consequences. First, old styles of securing collaboration, such as power or threats, are increasingly difficult to maintain. Second, voluntary forms of cooperation are more complicated to motivate. More and more people work in widely dispersed groups, in various locations, on different schedules, and in separate branches of multinational companies making old style ‘command and control’ management increasingly difficult to implement. The decline in fiat presents a major problem when managing contemporary organizations (Kim and Mauborgne, 1993).
Trust is key to cooperation since without trust people would not be willing to share potentially relevant and critical information. Parkhe (1998) asserts the key role mutual trust plays in assuring the success of international alliances and projects. Child (2001) argues that informal understandings based on trust are often more decisive than formal contracts. Many scholars have recognized trust as a key factor in improving the performance of international joint ventures (Hennart, 1988; Noteboom, 1996; Parkhe, 1998; Boersma et al., 2003). Others have argued that trust reduces transaction costs because it reduces opportunism and “economizes on the specification and monitoring of contracts and material incentives for cooperation” (Williamson, 1988; Williamson, 1993; Noteboom, 1996, p.989; Rousseau et al., 1998).

Chami and Fullenkamp (2002) propose trust between co-workers as a superior alternative to such standard tools as increased monitoring and incentive-based pay. People who trust each other work more efficiently since they do not invest in building safeguards against opportunistic behavior (Lewis, 1999). Boersma et al. (2003) argue that managers find ways to resolve conflicts much easier and faster when trust is present. Trust has also long been found to be an important predictor of successful negotiations and conflict management (Deutsch, 1958), and to have a direct effect on disputants’ responses to mediators attempting to settle disputes (Ross and Lacroix, 1996).

Trust in a globalizing world is thus becoming an ever more critical resource since it enables efficient cooperation within organizations as well as with partners (stakeholders) extrinsic to the organization (Rousseau et al., 1998).

1.1.2 Trust as a basis for motivation

Trust is also crucial for activating motivation processes that are increasingly necessary to face competitive pressures as well as handle continuous change and transformation. Brower, Schoorman and Tan (2000) suggest that leader-subordinate exchanges are greatly influenced by interpersonal trust. Child and Rodrigues (2004) argue that a trustful relationship between corporate managers and subordinates positively affects a firms’ effectiveness in achieving its objectives. They state that the ability of managers to execute plans is impaired if employees evidence limited trust. Sprenger (2002) claims a significant correlation between trust and the amount of intrinsic motivation exhibited by employees. Intrinsic motivation is very much based on the levels of identification employees have not only with the goals of an organization, but also the procedures it has set in place (Tyler, 2000). Lewis (1999) states that trust fosters the sort of enthusiasm that ensures employees’ best performance. Thus, trust within organizations increases the motivation of employees and partners to cooperate and increases their commitment to the organization.
1.1.3 Trust as a basis for innovation

Senge (1999) argues that the challenge for modern organizations is to continually build and share knowledge. Osterloh and Frey (2000) demonstrate that the sharing of tacit knowledge is key to innovation. Ardichvili, Page and Wentling (2003) show that the main factor fostering the exchange of tacit knowledge is interpersonal trust. Sprenger (2002) notes that without trust companies, or groups within a company, will not exchange their know-how. When trust is present, people are more willing to share important information and are able to achieve innovative results. Unlike formal contracts or rigid hierarchies, trust frees partners to respond creatively to unknown situations and to deliver new solutions (Lewis, 1999).

In line with this argument Lewis (1999) claims that trust is at the heart of today’s knowledge economy and therefore acts as a basis for innovation. Politis (2003) encourages the creation of trusting teamwork environments in which power is equated with sharing knowledge, rather than retaining it.

The correlation of trust and innovation has been demonstrated empirically by Politis (2003), who measured levels of interpersonal trust and found a significant effect on knowledge acquisition and final performance outcome of teams. Clegg et al. (2002) discovered a significant positive impact of trust on the innovation process of a high tech corporation. In a multi-country study Dakhli and De Clercq (2004) evaluated the levels of trust in national cultures and saw significant impact on the effectiveness of the overall innovation process. As an example of how trust enables innovation Gupta (2003) describes the Honey Bee Network, which has supported the creation of several highly successful IT start-ups in India.

Summing up, trust enables people to innovate, since they are more willing to share their knowledge. In trusting environments occasional failures are tolerated so that new ways can be explored (Krystek and Zumbrock, 1993). Thus, trust plays a significant role in prompting innovation.

1.1.4 Trust as a basis for successful change and transformation

Stakeholder trust is also key to successful change and transformation processes. Nieder (1997) sees trust as a requirement for all change processes. Sprenger (2002) views trust in management, trust in strategies proposed, as well as open communication, as elements for successful transformation processes within a company.

that the reputation of a vendor is decisive for his success in e-commerce activities. Trust is generally viewed as a key element of success in the on-line environment.

Trust is also a key facilitator of change processes, not only in the online world but also in off-line change processes.

1.1.5 Conclusion

In conclusion, we can state that in a globalizing world (see Figure 1), where strangers can meet more readily and the quality of relationships is becoming more relevant, trust is becoming more important. Stakeholder trust emerges as a crucial management resource as processes of cooperation become more complex, the importance of intrinsic motivation increases, the demand for innovation rises, and the required flexibility to deal with change grows. Following Shaw’s (1997) belief that trust is a ‘key enabler’ for sustainable organizational success, Barney and Hansen (1994) call trust a source for competitive advantage while Urban, Sultan and Qualls (2000, p. 48) declare trust the ‘most valuable resource’ for successful companies in the future.

1.2 The persistent decrease in trust

The World Economic Forum made trust the theme of its Annual Meeting in 2003. In the wake of Enron and other corporate scandals it seemed a plausible topic. Many companies subsequently hoped that with new regulation (Sarbanes Oxley Act, OECD Corporate Governance Codes etc.) trust would be restored quickly and business would return to normal. However other scandals, like the Wall Street investment frauds uncovered by Attorney General Eliot Spitzer in New York, showed that there would not be a quick fix to the problem.

1.2.1 Decrease in general trust - evidence from surveys

A global public opinion survey carried out for the World Economic Forum 2006 in 20 countries, for which researchers interviewed more than 20,000 citizens, “paints an alarming picture of declining levels of trust”(Forum, 2006).  

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1 The survey asked respondents how much they trust each institution “to operate in the best interests of our society.” Identical questions were asked in most of the same countries in January 2004, August 2002 and January 2001. Net trust levels are presented here – the difference between the percentage of respondents who express trust and those who express no trust in a given institution.
A full report, including charts illustrating all findings, is available at: http://www.weforum.org/trustsurvey.
The survey shows that trust over a range of institutions has dropped significantly since January 2004 to levels not seen since the months following the 9/11 terrorist attacks. The research conducted by GlobeScan, among others, shows that trust in organizations has dramatically declined in 14 countries even after 2001. After recovering trust in 2004 to pre-Enron levels, trust has since declined for both large national companies and for global companies. As of 2005, trust in global companies had reached its lowest level since the tracking began in 2001 (Forum, 2006).

A survey conducted by Harris International (2005) corroborates these findings. Both in the U.S. and the E.U. people view big companies by far as the least trustworthy with an average of 65% mistrusting big companies, while the same percentage say they trust the police. Another survey, the IBD/TIPP April 2003 poll, indicates that slightly more than half of Americans (54%) have low or very low confidence in the honesty and integrity of CEOs and CFOs. Other Gallup and Harris International surveys find that businessmen are among the

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2 The 14 countries that were tracked are: Argentina, Brazil, Canada, Germany, Great Britain, India, Indonesia, Italy, Mexico, Nigeria, Russia, Spain, Turkey and the U.S.
3 These findings are based on a global public opinion poll involving a total of 20,791 interviews with citizens across 20 countries (n=1,000 in most countries), conducted between June and August 2005 by respected research institutes in each participating country, under the leadership of GlobeScan. (A full list of participating institutes, with contact details, is available at: www.weforum.org.) Each country’s findings are considered accurate to within 3 percentage points, 19 times out of 20.
least trusted along with politicians, while nurses, teachers and doctors are the most trusted. Only 8% of Americans hold top business people in high regard (Harris, 2002; Jenkins, 2003; Gallup, 2005; Harris, 2005).

1.2.2 Decrease in employee trust - evidence from surveys

Employee trust and confidence in senior management also declined sharply after the year 2000 according to Watson Wyatt’s WorkUSA 2002 survey. Fewer than two out of five employees were found to trust senior leaders at U.S. companies. Jenkins (2003) identified a five-point drop from 2000 to 2002 in both the percentage of employees who say they have confidence in the job being done by senior management and the percentage of workers who believe their companies conduct business with honesty and integrity. Caudron already stated in 1996 that trust in the American workplace had hit rock bottom (Whitener, Brodt, Korsgaard and Werner, 1998) while Reina and Reina (1999) found it to be at an all time low in 1999 even before the accounting fraud scandals hit in the midst of a record economic boom. The U.N.’s International Labor Organization states that trust has eroded in workplaces around the world (Veninga, 2002).

1.2.3 Decrease in trust – evidence from observation

Other signs of decreasing stakeholder trust can be seen in the growth of anti-corporate movements such as ATTAC or Corporate Watch. At conferences such as the G8 summits or the World Economic Forum protesters voiced their criticism against an ‘irresponsible and morally perverted’ corporate leadership, and initiated counter movements such as the World Social Forum.

1.2.4 Reasons for the decline in trust

Many attribute the decline in trust to corporate misconduct and unethical behavior (Jenkins, 2003). On an interpersonal level, lack of integrity as well as an increasing opportunism, acquisitiveness, and greed are deplored (von Oetinger, 2004). Trust on an organizational level is falling because of an increased shortsightedness and an attitude that only seeks to make a ‘quick dollar’ (Jenkins, 2003). Harvard Business School professor Lynn Sharp Paine views an increasing discrepancy between external demands and internal demands as the problem.

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4 See also http://www.attac.org
5 See also http://www.forumsocialmundial.org.br
6 Tyco Boss Denis Kozlowsky or Richard Grasso of NYSE, who left their respective companies with US$ 140 million, are cited as examples.
In her book *Value Shift* (2003) she argues that stakeholders are increasingly aware of corporate conduct and demand more responsibility and social awareness. Bakan (2004) also argues that there is a fundamental problem in the capitalistic system that leads to ever decreasing trust. A growing number of citizens mistrust the capitalist system since it seems unable to solve social problems, and only able to multiply them instead (von Oetinger, 2004).

1.2.5 Conclusion

In summary, stakeholder trust in corporate organizations is decreasing because of corporate misconduct, unethical behavior, heightened expectations of companies and an increased dissatisfaction with the capitalist system and its capacity to solve social problems. The levels of trust in organizations have thus reached critically low levels.

1.3 Problem statement: Development of a trust gap

On the one hand, political, economic, societal and technical developments lead to more need for trust; on the other hand, organizations, especially corporations, do not possess much
trust, and in fact are continually losing stakeholders’ trust. Hence, a trust gap is emerging which is likely to impair successful corporate development.

![Development of Trust Gap](image)

Figure 4: Stylized emergence of trust gap (based on WEF survey data 2006)

Trust lost affects the bottom line of corporations directly. Simons (2002) reports that a one-eighth point improvement in a hotel’s trust score on a five-point scale could be expected to increase the hotel’s profitability by 2.5%. Dervitsiotis (2003) argues that lower trust indirectly impacts “customer loyalty, the willingness among stockholders to invest, and a cynicism among employees who feel insecure about their future employment and pension plans, thus limiting their efforts to participate and contribute ideas for improvements or innovations” (p.515).

In the present era of knowledge-based products and services in which human capital is expected to be an organization’s most valuable asset, lack of trust destroys the very essence of the collective intelligence that creates new wealth and facilitates future survival (Dervitsiotis, 2003).

Thus, the question I seek to answer is: How can organizations reestablish and maintain trust in order to close their trust gap and thereby secure long-term survival?
1.3.1 Practical relevance

Organizations in all areas but especially in business need to know how they can reestablish and maintain trust in order to secure their long-term survival. Since corporate boards serve to ensure the long-term survival of an organization, it is critical for them to understand the nature of trust, the reasons for decreases in trust and to recognize as well the ways to increase trust. The answers to this inquiry will not only have relevance on an organizational level, it will affect the personal level as well as the system level. On a personal level it will affect people, their well-being and their productivity. On a societal level it will affect the degree of regulation and freedom accorded to business organizations. Many people demand more state intervention in the hope of controlling corporate behavior (e.g. ATTAC). Others see such movements as undermining the free market system. Corporate self-regulation can contribute to optimizing the system. I will argue that stakeholder trust has to become a focus of governance processes so that management becomes sensitive to the issue and can more effectively close the trust gap.7

1.3.2 Theoretical relevance

Much research on trust has been conducted in sociology (Granovetter, 1985; Giddens, 1990; Luhmann, 2000) and political economy, where trust is seen as a key element of social capital (Fukuyama, 1995; Putnam, 2000). From an economic perspective, trust has been treated in the area of transaction cost theory, resulting in more efficient transactions (Williamson, 1988; Williamson, 1993; Noteboom, 1996). In the strategy literature, trust has been related to desirable outcomes such as competitive advantage (Barney and Hansen, 1994), firm performance, as well as conflict and opportunism reduction (Doney, Cannon and Mullen, 1998; Zaheer, McEvily and Perrone, 1998). The marketing literature has focused on trust because customer satisfaction and long-term orientation are perceived as consequences of trust (Dwyer, Schurr and Oh, 1987; Ganesan, 1994; Morgan and Hunt, 1994; Doney and Cannon, 1997; Geyskens, Steenkamp and Kumar, 1999). Management literature assumes the positive role of trust in business relationships (Shankar, Urban and Sultan, 2002), in acting as an accurate predictor of employee satisfaction (Driscoll, 1978; Geyskens et al., 1999), in reducing overall managerial uncertainty (Mayer et al., 1995), and in serving as a form of organization control (Creed and Miles, 1996). In the organizational literature, trust has been posited to operate as a governance mechanism (Bradach and Eccles, 1989), diminishing opportunism in exchange relations and promoting cooperation (Morgan and Hunt, 1994; Pavlou, 2002).

7 “Capitalism has evolved like a car, it has gotten more perfect, more convenient and ever faster – only the braking devices are from yesterday, that is why it’s on the verge of falling off the curve. New braking systems are needed (BRAND EINS 03/04)”
However, in most literature trust is seen as a moderating or as an independent variable. It is therefore necessary to understand the nature of trust itself and its antecedents in an organizational context. It is further necessary to create an integrative view of stakeholder trust and a stakeholder trust measurement. Many researchers have studied trust only from the perspective of one stakeholder group such as clients, neglecting potential spillover effects from other stakeholder groups. For example, some companies are known to treat their employees badly and that has an impact on their clients (see e.g. Nike and child labour issues (Boje, 1998)). In brief, an integrated stakeholder view of trust is lacking.

In addition, the theoretical integration of trust into current corporate governance mechanisms is missing, and there has not been much research on potential frameworks that can support corporate boards to close the trust gap. Given this, there is a need for research on integrated stakeholder trust and the integration of trust management within corporate governance.

1.3.3 Conclusion

More and more corporations are facing a trust gap. Levels of trust within the corporate world are declining rapidly, but in this era of globalization trust is becoming increasingly relevant. Many crucial management processes and their success are based on trust. In the future, sustainable corporate success will extensively depend on the motivation of employees to cope with change and transformation as well as on the cooperation of relevant stakeholders and their ability to innovate. As Warren Bennis has noted, trust has become a source of sustainable competitive advantage (Steward, 2000, p. 332); new corporate governance systems should heed this trend.

1.4 Research objective and research questions

1.4.1 Objective of dissertation

The objective of this research is to discover ways that mitigate the current trust crisis. I will develop a management framework that supports organizations need to reestablish and maintain trust and thereby close the trust gap and secure long-term survival.

The Integrated Stakeholder Trust Management Framework (ISTMAF) will: 1) allow corporate boards to monitor stakeholder trust and thus sensitize it to the issue and 2) enable the board to generate decisions to restore trust and reflect potential decisions on their trust-breaking or trust-building capacity.

ISTMAF will be integrated in corporate governance mechanisms so that supervisory and management boards remain aware of the relevance of trust while performing daily activities.
Summing up, the research objective can be formulated as follows:

This dissertation proposes to create a framework to help boards measure, monitor and build trust in order to close the trust gap.

1.4.2 Research questions

In order to reach the research objective, the following research questions need to be answered:

RQ1: What general concepts support a trust management framework?
RQ2: What is trust, what conceptions of trust exist, and how useful are they for organizations?
RQ3: How can trust be defined in a stakeholder setting?
RQ4: Can trust be measured, and if so, how can trust be measured in an organizational setting?
RQ5: Can organizational trust be managed, and if so, how can it be managed?
RQ6: What would an Integrated Stakeholder Trust Management Framework look like?
RQ7: How can corporate boards use the Integrated Stakeholder Trust Management Framework?

Answering these seven research questions will accomplish the research objective of creating a tool that enables organizations to close the trust gap and secure long-term survival.

1.5 Research approach

Before delving into the theoretical concepts that serve as a basis for my work, I wish to position my research within the spectrum of research approaches. I will also provide a short analysis of the reasoning underlying my choice of methods.

1.5.1 Research positioning

Ethridge (1995, p. 16) defines “research as the systematic approach to obtaining new and reliable knowledge.” Research is searching for explanations of events, phenomena, and relationships in a planned and managed process (Ethridge, 1995). Different philosophies guide the research process; according to Weick (1996), it is necessary to make the most basic assumptions explicit.
The main guiding philosophies in social science have been dubbed “positivism” and “constructivism.” The former evolving from the natural science paradigm assumes that by employing deductive reasoning we can discern the one truth that can be observed by all. The latter assumes that “truth” as such does not exist but only socially “constructed” versions of a commonly accepted view of reality do (Ruegg-Stürm, 2001). The positivist stance seeks to explain and predict what happens to the social world by searching for regularities and causal relationships between its constituent elements in an objective manner. The social constructivist position views the social world as essentially relativistic and constructed by individuals. Proponents maintain that social science is essentially subjective and truth can only be observed by induction (Burell and Morgan, 1979; Orgland, 1995). A theoretical view that is less rigid and more open to combining the merits of both views is called ‘scientific realism’ (Hunt, 1990).

Scientific realism is characterized by probing hypotheses that lead to “verification” of theories and a gradual asymptotic approach to “truth.” However no knowledge is considered absolute and certain. Within the realm of scientific realism deduction as well as induction are accepted as scientific procedures (Zaltman, 1982). In my research purely deductive methods will not be sufficient since the construct of organizational trust is too complex and under researched. To provide an integral understanding, inductive methods need to complement the research process.

Due to the complexity of trust it is believed that not one theory or field of research provides a sufficient basis. Hence in line with the notion of ‘theoretic pluralism’ (Feyerabend, 1965) I will probe several theories and fields to elucidate their contribution to the concept of organizational trust.

Rather than being pure basic research my work will be conducted in the manner of applied research, as it is very practically focused (Ethridge, 1995).

1.5.2 Choice of research methods

The research topic as well as the assumptions outlined above have direct implications on the method chosen (Burell and Morgan, 1979). Organizational trust remains a less researched field and therefore a combined use of quantitative and qualitative methods seems most appropriate. Scientific realism supports such a combined approach. Trust is classified as a latent construct as are many other constructs in social sciences (Paxton, 1999). Latent constructs cannot be observed and measured directly and hence triangulation is often

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8 This approach presents a stark contrast to critical rationalism, which dominates the natural sciences.
advised (Miles and Huberman, 1994). Scientific realism is closely related to empirical methods based on covariance structures (such as structural equation modeling), since these provide for measurement errors (Einwiller, 2003). Measurements are viewed as imperfect since “…some of our perceptions may be true others false or, alternatively, some of our perceptions are more accurate or ‘closer to the truth than others’” (Hunt 1990, p. 9).

The centerpiece of my research is a survey that allows me to establish trust measurement constructs. The survey provides me with generalizable results and possibilities for experimental control. It also provides support to pass internal validity and external validity scrutiny. In addition to the survey I conducted semi-structured interviews to increase understanding of the concept and to establish construct validity. The interviews helped to establish the true causal chain linking the variables (Miles and Huberman, 1994). The triangulation of methods is completed through direct observation and participant observation (Yin, 1998), as I was a member of all the organizations surveyed at some point for an extended period of time. This approach potently corroborates my findings (Miles and Huberman, 1994).

1.5.3 Conclusion

Following Elias (1985), I employ scientific methods as a means to an end rather than as an end in themselves. Guided by the research paradigm of scientific realism I will use quantitative and qualitative methods to answer the research questions.

1.6 Structure of the dissertation

The structure of my dissertation is geared to achieve the research objective, developing a framework that supports corporate boards’ need to rectify the current trust crisis. The chapters will proceed step by step according to the research questions outlined in 1.4.

The introduction (Chapter 1) outlined the research problem, the research objective, the research questions, and the research approach.

Chapter 2 will outline the general concepts that support the creation of a trust management framework, namely, stakeholder management and corporate governance (RQ 1).

Chapter 3 examines the notion of trust drawing from precepts in sociology, psychology, political science, economics, and management. I review the different conceptions and categorizations of trust proffered and provide a definition applicable to stakeholder trust (RQ2 /RQ3).
In chapter 4 I proceed to measure trust empirically in the organizational setting. Based on evidence from different research streams, I surveyed stakeholder trust in four different organizations, for a total of 2,053 responses. I present a measurement for trust that holds across eight different stakeholder groups and serves as the trust-monitoring component of the Integrated Stakeholder Trust Management Framework (ISTMAF) (RQ4).

Chapter 5 will outline how trust can be managed. Based on analysis of the literature and 32 semi-structured interviews with five respondents from five stakeholder groups, I present do’s and don’ts to building trust (RQ5).

Chapter 6 integrates the findings of chapters 4 and 5 and presents the Integrated Stakeholder Trust Management Framework (ISTMAF). ISTMAF consists of two components, the Trust

Figure 5: Structure of dissertation
Monitor, which measures stakeholder trust levels, and the Trust Enabler, which supports the trust building process (RQ6). The Trust Enabler itself spawns decisions to address low trust levels with stakeholders, enables boards to reflect on the impact of managerial decisions on stakeholder trust and encourages reflection on ‘trust bombs’, behavior and actions that have destructive potential. The chapter concludes with a presentation of how to integrate ISTMAF within existing corporate governance mechanisms, such as balanced scorecards and risk management (RQ7).

In Chapter 7 the conclusion presented summarizes this study’s contribution to theory and practice, outlines new areas for research, provides an outlook on the potential for change in organizations facing a trust crisis, and reflects consequences on the economic system at large.

1.7 Overview of basic concepts

The Enron and WorldCom scandals foregrounded the trust crisis. Investors were betrayed, but employees and other stakeholders (e.g. communities) suffered as well. The discussion about Corporate Governance gained impetus and many scholars and practitioners looked to regulations and codes for solutions. While some of these codes (Sarbanes-Oxley) mainly target the relationship of the corporation and the investor, many focus on stakeholder relationships (OECD Code of Corporate Governance). In the following I will briefly outline the concepts of corporate governance and stakeholder management, since they are the building blocks for the dissertation. In concluding, I provide an overview of trust as a phenomenon, which figures as the central notion in this work.

1.7.1 Corporate governance

According to Cochran and Wartick (1988), corporate governance is an umbrella term that covers many aspects related to concepts, theories and practices of boards of directors, including their executive and non-executive members. Others say it is a field that focuses on the relationship between boards, stockholders, top-management, regulators, auditors and other stakeholders (Maassen, 1999).

Many early authors see the agency problem, stemming from the separation of ownership and control, as the core of the difficulties in corporate governance (Fama, 1980; Shleifer and Vishney, 1997). They argue that managers possess owner-like power over funds and have an information advantage that they use for their own benefit. In the meantime, the debate over corporate governance has integrated the arguments of stakeholder theorists. The firm is increasingly viewed as a social actor embedded in a community and as a provider of diverse outcomes to a variety of different stakeholders.
Within corporate governance the role of the board is central since corporate boards are the main actors. Maassen (1999) suggests three types of roles: the service role, the control role, and the strategic role of corporate boards of directors. The ISTMAF will support boards mainly in their service role, but can be of service to boards in their control and strategic roles as well.

1.7.2 Stakeholder theory

Positioning itself against the “shareholder” view, stakeholder theory brings the manifold interdependencies of an organization to the forefront. Stakeholder theory argues that a firm is not only accountable to its shareholders but also to its stakeholders. Stakeholders are groups and individuals who can affect, or are be affected by the achievement of an organization’s mission (Freeman, 1984). Stakeholder theory, while based on normative arguments, is a very powerful managerial concept, combining ethics and organizational strategy (Freeman, 1984; Donaldson and Preston, 1995; Jones, 1995; Mitchell, Agle and Wood, 1997). The central idea is that an organization's success is dependent on how well it manages its relationships with key groups such as customers, employees, suppliers, communities, financiers, and others that can affect the realization of its purpose. The manager's job is to ensure the continued support of these diverse groups by balancing their interests, making the organization a place where stakeholder interests can be maximized over time (Freeman and Philips, 2002). Stakeholder theory provides the theoretical basis for the Integrated Stakeholder Trust Management Framework.

1.7.3 The phenomenon of trust

Trust is a complex phenomenon that can take various forms. There is general trust and situation-specific trust, emotion-based trust and rational trust. Luhmann (2000) argues that the onset of a trusting relationship is based on a situation characterized by uncertainty, the risk of personal loss, and freedom of choice. Seifert (2001) views a trust decision based on routine, emotion or rationality. Mayer, Davis and Schoorman (1995) and Ripperger (1998) claim that our decision to trust is based on the expectation that the trustee will behave in a trustworthy way. Scholars agree that trust is based on various expectations including benevolence, reliability, competence, integrity and openness (Ellis and Shockley-Zalabak, 1999; Tschannen - Moran and Hoy, 2000; Einwiller, 2003). When actors trust, they are making themselves vulnerable to the trustee, risking that the trustee will behave opportunistically (Mayer et al., 1995; Ripperger, 1998).

Research distinguishes trust in persons, organizations, institutions and systems (Luhmann, 2000; Hubig, 2004). In general trust is viewed as a valuable resource and considered a social or human capital that is worth accruing (Gambetta, 2001; Offe, 2001). The components of trust expectations are particularly open to influence. Although trust cannot be managed with
an input-output equation, trust sensitive management can take decisions that do not harm and even improve the trustworthiness of the organization.

1.8 Conclusion

In the pages above I outlined: 1) the reasons for an emerging organizational trust gap (research problem), 2) ways to examine how organizations can deal with the trust crisis (research objective and research questions), 3) my research approach and the flow of the dissertation, and 4) the basic concepts used in this work.
2 Conceptual Foundations

I will explore in depth the basic concepts relevant for leadership that I had previously identified. Corporate governance provides leadership with steering mechanisms for the organization, while stakeholder management offers the philosophical and managerial basis for an integrative view of organizational trust.

2.1 Exploration of corporate governance

In this section I outline the notion of corporate governance, its origin and its development. I focus on the general roles of boards and also offer insight into how corporate governance is practiced in different countries; after all, a trust management framework needs to cater to the specificities presented.

2.1.1 Definitions of corporate governance

The spectrum of understanding corporate governance is very broad and there is no real agreement on the definition of the term (Keasey, Thompson and Wright, 2002). According to Cochran and Wartick (1988), corporate governance is an umbrella term that covers many aspects related to concepts, theories and practices of boards of directors and their executive and non-executive directors. It is a field that focuses on the relationship between boards, stockholders, top management, regulators, auditors and other stakeholders (Maassen, 1999). Turnbull (1997) sees corporate governance as a field describing all the influences affecting the institutional processes involved in organizing the production and sale of goods and services. Keasey, Thompson and Wright (2002) give an even wider definition of corporate governance as “the entire network of formal and informal relations involving the corporate sector and their consequences for society in general” (cf. Eckart 2003, p. 46).

2.1.1.1 Classical understanding

The debate on corporate governance is as old as the so-called “modern corporation” (Berle and Means, 1968) but has become pervasive since the corporate scandals of the past decade (Nobel, 2004). Many early authors see the agency problem, stemming from the separation of ownership and control, as the core of corporate governance (Fama, 1980; Shleifer and Vishney, 1997). They argue that managers possess the power over funds of owners and have an information advantage that they use for their own benefit. Nobel (2004) calls this logic the ‘chairholder’ value.
2.1.1.2 Contemporary understanding

The corporate governance debate has changed from one limited to the financial realm to one embracing a wider spectrum. The arguments of stakeholder theorists have been integrated into the discussion and the firm is seen as a social actor embedded in a community and a provider of a range of outcomes to different stakeholders. Flatz (2002) sees corporate governance as the foundation for sustainable value creation. Corporate governance comprises the principles and regulations of efficiency, transparency and clear division of responsibilities that any corporate organization needs to ensure. These principles and regulations refer to both the internal relationship between management, the board of directors and the auditors and the external relationships, with shareholders and other stakeholders (Flatz, 2002).

![Corporate governance framework](image)

Figure 6: Corporate governance framework (Flatz 2002)

Stiglitz (2004) posits an extreme stakeholder view when he defines the core of corporate governance as being the relationship between organized individuals and society.

2.1.1.3 Practical implications

The agency view of the problem still dominates the discussion. The remedy most often proposed is the creation of a code of conduct, whereby firms have to comply or explain why they do not meet code criteria (Nobel, 2004). However, in current codes of governance a
shift from shareholder focus towards stakeholder rights can be observed (see the OECD Code of Corporate Governance).

2.1.2 Theoretical background and the role of the board

The board plays a central role in corporate governance as the anchor for governance measures. Krystek and Zumbrock (1993) argue that leadership exerts a key influence on corporate culture. Sonnenfeld (2002) claims that ‘great boards’ are able to establish trust within and outside the organization. Others also argue that the goal of corporate governance is to establish, maintain and build trust with key stakeholders (Child and Rodrigues, 2004). Therefore, it is essential to understand the theoretical background of the role of boards within Corporate Governance.

Macus (2002) identified agency theory, stewardship theory, resource dependency theory, institutional theory, and stakeholder theory as basic drivers of the board role. Hawley and Williams (1996) classified four models of corporate control: the finance model, the stewardship model, the stakeholder model, and the political model. In the following I outline the different models, their line of reasoning, and their view of the roles of the board.

2.1.2.1 Finance model - agency view

As mentioned before, the agency theory or the finance model portray the central problem in corporate governance as the construction of rules and incentives that align the behavior of managers (agents) with the desires of owners (principals) (Hawley and Williams, 1996). Thus, the board’s task is the control of potentially opportunistic managerial behavior. Mechanisms to align interests are, for example, CEO compensation and board monitoring of management. Agency scholars call for a majority of independent directors at the board level and propose independent audits, compensation, and nominating committees to better fulfill the control function (Turnbull, 1997; Macus, 2002).

As Shleifer and Vishny (1997) point out, there is ample evidence that the agency problem exists and should be taken seriously because of the significance of the wealth lost. However, Jensen and Meckling indicate that despite the problems, the market value of established corporations has significantly increased over the past three decades. They argue that the agency problem does not seem to restrain many investors (Jensen and Meckling, 1976). Therefore the agency view cannot be the only means to access corporate governance.
2.1.2.2 Stewardship model

The stewardship theory (Davis and Schoorman, 1997; Muth and Donaldson, 1998) assumes that managers have good intentions and are generally acting in the interest of shareholders. “The executive manager,… far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets”(Donaldson and Davis, 1991, p.51). In contradiction to agency-theory, stewardship theory sees no motivational problem or misalignment of interests. Stewardship theory argues that managers are intrinsically motivated and that external control could be detrimental to their performance. In this light the board’s role is not to control management but to help executives formulate and implement plans (Donaldson and Davis, 1991). To ensure the board’s service character, stewardship theory argues that the CEO should act as chairman. In that sense the board’s task is to serve management by providing strategic guidance and advice (Muth and Donaldson, 1998).

Many authors, especially the proponents of stewardship and agency theory, see each theory as contradicting the other (Donaldson and Davis, 1991; Turnbull, 1997). Turnbull is concerned that the assumption of both theories can become a self-fulfilling prophecy. Ghoshal and Moran (1996) question if, for example, opportunistic behavior might increase under the sanctions and incentives imposed to curtail it may thus create “the need for even stronger and more elaborate sanctions and incentives” (p. 14). The inclination of individuals to act as either stewards or self-seeking agents may be contingent upon the institutional and even the cultural context. In this case both theories can be valid as evidenced by the empirical psychological evidence (Turnbull, 1997).

2.1.2.3 Stakeholder model and resource dependency view

Stakeholder theory adopts a pluralistic view of organizations in which numerous stakeholders exert influence on the firm. The purpose of the firm is seen as the creation of wealth or value for its stakeholders. As key to maximizing wealth, authors such as Blair (1995) propose to enhance the influence of critical stakeholders and provide them with ownership-like incentives. A key issue for the board is therefore to identify the critical stakeholders and integrate their view within the board. The other task for the board in adopting this perspective is to reach a balance between the firm's objectives and stakeholder interests. The board therefore fulfills a negotiating role, which can also be classified as a service role (Macus, 2002).

In a very similar way resource dependence theory (Hillman, Cannella Jr and Paetzold, 2000; Valcárcel, 2002; Hillman and Dalziel, 2003; Tremblay, Côté and Balkin, 2003) focuses on

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9 See the examples of Mondragon in Spain or the ‘company man’ model in Japan (Turnbull 1997).
the need for firms to establish links to their environment and their constituencies. Fighting uncertainty is a central issue and the board of directors is seen as contributing to firm performance by providing connections to people who have direct or indirect access to important external resources or influential groups. The board, therefore, performs a networking role. Board composition is a key aspect, and in the light of networking a bigger board would also be a better board (Macus, 2002). Following this logic, the network the board provides will enhance the knowledge of the firm and increase the firm’s performance. Given this view, the board also performs a service role.

2.1.2.4 The political view

The political model recognizes that many aspects of corporate governance, such as the allocation of corporate power, privileges and profits between owners, managers and other stakeholders are determined by government legislation (Turnbull, 1997). This view is similar to that of institutional theory which claims that firms are shaped by legal and social rules as well as cultural conventions (Macus, 2002). The theory argues that firms cannot exist in isolation but always operate within a larger social system. As such, they need to comply with legal standards as well as societal requirements. These external pressures restrict the options of management and the board has to ensure compliance with legal and societal pressures. The board fulfills therefore a compliance and maintenance role. The fulfillment of this role calls for a particular board composition culled primarily from former insiders as well as political and societal experts.

Table 1: Board roles (adapted from Maassen 1999, p. 24)

<table>
<thead>
<tr>
<th>Decision management</th>
<th>Decision control</th>
<th>Decision management-decision control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource dependency theory</td>
<td>Agency theory</td>
<td>Stewardship theory</td>
</tr>
<tr>
<td>Stakeholder theory</td>
<td>Institutional approach (Political model)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service Roles</th>
<th>Control Roles</th>
<th>Strategic Roles</th>
</tr>
</thead>
</table>

Maassen (1999) suggests three generally accepted board role categories: service, control, and strategy (see Table 1). The service role derives from resource dependence theory and stakeholder theory, and can be related to the decision management activities of the board. The control role, as suggested by proponents of agency theory and the institutional approach, strongly focuses on decision control activities. The mutual exclusivity of these perspectives is called into question since the stewardship theory integrates both functions in a strategic role.

The vision for ISTMAF is to serve boards especially in their service role. But ISTMAF could very well serve the strategic and the control role of the boards as well to varying degrees of effectiveness (see Chapter 6).
Table 2: International comparison of corporate governance cultures

<table>
<thead>
<tr>
<th></th>
<th>Anglo-Saxon Model</th>
<th>Continental Europe (Germany)</th>
<th>Asia (Japan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board type</td>
<td>Unitary board</td>
<td>Two-tier boards and unitary boards</td>
<td>Unitary board</td>
</tr>
<tr>
<td>Board composition</td>
<td>Insiders</td>
<td>Insiders and outsiders</td>
<td>Insiders</td>
</tr>
<tr>
<td>Type of firm ownership</td>
<td>Dispersed ownership</td>
<td>Concentrated ownership</td>
<td>Concentrated ownership</td>
</tr>
<tr>
<td>Main characteristic</td>
<td>Shareholder approach</td>
<td>Stakeholder approach</td>
<td>Stakeholder approach</td>
</tr>
<tr>
<td>Orientation</td>
<td>Market oriented</td>
<td>Bank oriented /relationship oriented</td>
<td>Bank oriented /relationship oriented</td>
</tr>
</tbody>
</table>

2.1.3 Corporate governance in different countries

In different parts of the world different models of corporate governance are practiced. Organization of corporate governance differs among countries and depends on the business context (De Vuyst and Ooghe, 2001). Following Vives (2000) we can distinguish between market-oriented (mostly the US and the UK) and bank-oriented or relation-based systems (continental Europe, with Germany as the main model, and Japan). In the bank-oriented system firms and banks foster long-term relationships in contrast to the short-term financial roles associated with banks in market-oriented regimes.

While continental Europe and Japan base their corporate governance models on the stakeholder approach, the Anglo-Saxon countries favor the shareholder approach. The boards in Japan and Anglo-Saxon countries are mostly staffed with insiders, while in Europe, outsiders, such as workers or politicians, also have a say.

Despite these differences there is a trend towards convergence of corporate governance practices. There is for example growing discontent with Japanese governance: large, bureaucratic boards are seen as a symptom of ‘big company disease’ and a culprit in the nation’s current economic malaise. In Germany the system has been criticized for blocking competition and innovation. Large Japanese investors appear to be soft on management while in Germany large investors have few incentives to discipline managers. Therefore the trend in these countries is to improve small shareholders rights. In the U.S., however, long-term relationships are seen as advantageous and there is a movement toward legislation that includes stakeholders other than shareholders (Turnbull, 1997; Vives, 2000; De Vuyst and Ooghe, 2001; Lashgari, 2004).
2.1.4 Conclusion

Thus, even though there are trends towards convergence within corporate governance, differences exist. The trust management framework has to be designed so that it can serve the board in regions where a unitary board structure is in place as well as in regions where a two-tiered board dominates.

2.2 Exploration of stakeholder theory

Trust levels can be low among various stakeholders such as society, employees and investors. It is thus indicated to use an approach that encompasses an integrated view of management. In the following I will describe the development towards stakeholder management, describe what stakeholder management is, identify the types of stakeholders that exist, and analyze the different aspects of stakeholder theory. In conclusion I will depict the different streams of stakeholder theory and position my approach within this scope.

2.2.1 Genesis of stakeholder view

The actual word *stakeholder* first appeared in a memorandum at the Stanford Research Institute (SRI) in 1963. Stakeholders were initially defined as “those groups without whose support the organization would cease to exist” (Freeman, 1984, p.31). The term was coined to oppose the concept of the stockholder as the only group to which management had to be responsive. According to Freeman's own definition, “a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives” (Freeman, 1984, p.46).

Stakeholder theory brings the manifold interdependencies of an organization to the forefront. Stakeholders are groups and individuals who can affect, or are affected by, the achievement of an organization’s mission. Freeman claims that executives must take multiple stakeholder groups into account, not only shareholders, if organizations are to be successful in the current and future business environment (Freeman, 1984). Clarkson (1995) has noted as well that without the continuing participation of primary stakeholders, an organization cannot survive as a going concern.
2.2.2 Development of stakeholder theory

2.2.2.1 Input-output model

In a conventional input-output perspective (Figure 7) of the firm, investors, employees, and suppliers are depicted as contributing inputs, which the firm transforms into outputs for the benefit of customers. Freeman (1984) argues that each contributor of inputs expects to receive adequate compensation, but liberal economics’ interpretation of this model would hold that input contributors, at the margin, receive only “normal” or “market competitive” benefits. Individual contributors who are particularly important, such as possessors of scarce locations or skills, will receive "rents" but the rewards of the marginal contributors will only be "normal" (Freeman, 1984). As a result of competition within the system, the bulk of the benefits will go to the investors, since they possess the scarcest goods. This interpretation is problematic since it is limited and confined almost exclusively to the field of finance.

![Figure 7: Input-output model (Freeman, 1984, p.5)](image)

2.2.2.2 Stakeholder model

For managerial purposes the lopsided input-output view is too limited. In real life managers address different interests on a daily basis, thus a managerial view of the firm is developed that includes owners and employees as distinct entities (Freeman 1984). The SRI extended this approach and included all groups, which were relevant to the success of the firm.

The stakeholder model contrasts the input-output model because it argues that all groups with legitimate interests (not only investors) participate in an enterprise to obtain benefits (Cohen, 1995; Cragg, 2002). Cohen (1995) and Cragg (2002) also claim that there is no prima facie priority of one set of interests and benefits over another. Rather, the firm is seen as a nexus of contracts with many potential claimants.
The stakeholder concept (Figure 8) typically includes shareholders and investors, employees, customers, and suppliers, together with what is defined as the “public stakeholder group”: government and communities (Clarkson, 1995). Cohen (1995), Donaldson and Preston (1995) added trade associations and environmental groups to Clarkson's (1995) list of primary stakeholders (see also Freeman, 1984).

2.2.3 Managing stakeholders


2.2.3.1 Descriptive aspects

The descriptive aspects of stakeholder theory support management in identifying relevant stakeholders. It offers a different perception of what the firm is and what needs to be managed (Brenner and Cochran, 1991; Jones, 1994; Clarkson, 1995).
Different models for the identification of relevant stakeholders are proposed. Mitchell, Agle and Wood (1997) develop the idea that stakeholders become salient to managers to the extent that they perceive them as possessing power, legitimacy, and urgency. They note that each attribute is a variable rather than a steady state. Jawahar, McLaughlin and Gary (2001) also stress that stakeholder-manager relations are dynamic not static. Integrating organizational life cycle theory, resource dependence theory, prospect theory, and stakeholder management strategies, Jawahar et al. (2001) show that at any given organizational life cycle stage certain stakeholders will be more important than others.

Friedman and Miles (2002) differentiate stakeholders based on the type of contract they enter into with the organization at stake. They define four types of stakeholder relations based on the type of contract, the necessity of collaboration, and the complementarity of interests. These are:

(1) Explicit recognized contracts (written or verbal, can be via a third party).

(2) Implicit recognized contracts (recognized by parties involved and/or significant others, such as governments or regulators or partners).

(3) Implicit unrecognized contracts (not recognized by the parties involved, but recognized by certain ‘sensitized’ others, such as academics, novelists and activists). If the parties involved went through some process of sensitization it is likely that recognition would follow.

(4) No contracts.

Figure 9: Classification of stakeholders (Friedman and Miles 2002)
Based on Archers typology (see Figure 9), they distinguish first whether relationships are compatible or incompatible in terms of sets of ideas and material interests associated with social structures - that is, whether they help or hinder each other. Second, they distinguish whether relationships between groups are necessary or contingent. Necessary relationships are internal to a social structure (such as an organization) or to a set of logically connected ideas. Contingent relations are external or not integrally connected.

These classifications help to identify sets of relevant stakeholders as a basis for the evaluation of trust.

2.2.3.2 Instrumental aspects

Donaldson (1995) states that stakeholder management is fundamentally a pragmatic concept. He claims that organizations have finite resources, and managers must effectively deal with many pressures in their competitive environments, in addition to those exerted by shareholders. Freeman et al. (2002) assert that an organization's success is dependent on how well it manages the relationships with key groups such as customers, employees, suppliers, communities, financiers, and others that can affect the realization of its purposes. The manager's job is to maintain the support of all of these groups, by balancing their interests, while making the organization a place where stakeholder interests can be maximized over time.

2.2.3.3 Normative aspects

Many stakeholder theorists state (e.g. Cragg, Donaldson and Preston) that the most significant aspect of stakeholder theory is its normative basis. The central tenet of normative stakeholder theory is that firms should attend to the interests of all their stakeholders—not just their stockholders. A common theme among these scholars is that firms should treat stakeholders as “ends” not as “means” (e.g. Jones, 1995; Cludts, 1999; Cragg, 2002).

For Cragg (2002) the appeal of stakeholder theory lies in its capacity to address the perplexities generated by the dominant view of management and the modern investor-owned corporation currently in place. Craig believes the goal is to build a robust answer to the question, why should investor-owned corporations be managed ethically and what does this mean for the way business is conducted? The organizational governance and leadership literature have increasingly emphasized the duties owed by leaders and organizations to their stakeholders (Cameron, Dutton and Quinn, 2003; Carrol and Buchholtz, 2003; Manville and Ober, 2003; Sharp Paine, 2003).

In an analysis of the ethical duties owed by organizations in the post-Enron era, Caldwell and Karri (2005) suggest that ethical governance includes taking responsibility for
organizations: to articulate the roles and relationships of people in organizations in order to make clear the implicit and explicit duties owed (cf. Block, 1996), and to honor organizational obligations to all stakeholders in the leaders’ role as stewards (cf. Manville and Ober, 2003).

Phillips, Freeman and Wicks (2003) stress that the attention to the interests and well-being of non-shareholders is obligatory for more than the prudential instrumental purposes of wealth maximization. While admitting that there are still some stakeholder groups whose relationships with the organization remain instrumental (such as clients), because of the power they wield, there are other normative legitimate stakeholders, such as society at large (Phillips et al., 2003, p. 3). Even though many authors such as Freeman or Cohen acknowledge that this normative component of the stakeholder approach leads to an a priori equality of stakeholders importance, Carroll (1991), Gioia (1999) and others emphasize the primacy of economic responsibility over non-economic responsibilities.

2.2.3.4 Managerial aspects

The managerial aspect of stakeholder theory recommends attitudes, structures, and practices that, taken together, constitute stakeholder management. Following Freeman (1984), stakeholder management requires, as its key attribute, simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishment of organizational structures and general policies and in case-by-case decision making. This requirement holds for anyone managing or affecting corporate policies, including not only professional managers, but shareowners and the government. Several scholars have suggested that an organization could adopt different approaches to deal with each primary stakeholder group, including proaction, accommodation, defense, and reaction (Carroll, 1979; Wartick and Cochran, 1985; Clarkson, 1995; Jawahar et al., 2001).

Stakeholder theory does not necessarily presume that managers are the only rightful locus of corporate control and governance. Nor does the requirement of simultaneous attention to stakeholder interests resolve the long-standing problem of identifying stakeholders and evaluating their legitimate ‘stakes’ in the corporation. The theory also does not imply that all stakeholders (however they may be identified) should be equally involved in all processes and decisions (Donaldson and Preston, 1995). Phillips (2003) argues that the central concern of the theory is to heed the interests and well-being of those who can assist or hinder the achievement of the organization's objectives.

In conclusion the four approaches to stakeholder theory, although quite different, are mutually supportive and it is widely accepted that the normative base serves as the critical underpinning for the theory in all its forms. My work will have a normative basis but intends to be managerial in nature. Therefore, stakeholder theory will provide a valuable theoretical basis for the trust management framework presented in this thesis.
2.2.4 Positioning of work

The term stakeholder means many things to many people and hence evokes praise or scorn among scholars and practitioners from diverse academic disciplines and backgrounds (Phillips et al., 2003). Stoney and Winstanley (2001) categorize stakeholder perspectives from being Marxist and radical or pluralist to unitarist and neo-liberal. They argue that Marxists and radicals as well as the unitarists and neoliberals eventually rejected the notion of stakeholding. Following the classification of Stoney and Winstanley the purpose of stakeholding can reach from pure analysis to a reformative rationale. Stakeholding is viewed as being an instrumental, ‘means to an end’ approach to being, in a Kantian sense, an end in itself. Stoney and Winstanley classify contributions according to the level of intervention, such as in the area of individual rights, the field of corporate governance, the level of states ‘public policy’ or in the area of international regulation. With regard to degrees of stakeholder enforcement, scholarly viewpoints range from voluntarism to coercion.

I place my dissertation within the pluralist perspective, since I believe that stakeholding matters. The dissertation has a reformatory character and leans towards a moral application of stakeholding. The level of stakeholder intervention occurs on the corporate governance level of the organization, whereas the degree of enforcement belongs more to voluntarism than coercion.

2.2.5 Conclusion

Manville and Ober (2003) state that organizations and their leaders owe their members and stakeholders a higher level of commitment and caring than has traditionally been delivered. Advocating a new brand of corporate leaders who are ready to enlarge their sense of accountability beyond traditional amoral corporate thinking, Paine (2003) calls upon organizational leaders to “break through the thought system embedded in old orthodoxies.” Like Paine (2003, p. 246), Chenhall and Langfield-Smith (2003) agree that “companies will need to cultivate more leaders who understand these broader accountabilities and who are excited by the challenges they present … to make the world not only more prosperous, but also more just and more humane.” I view stakeholder management as crucial to closing the trust gap. The ethical aspect within the theory addresses the problem of establishing trust whereas the managerial aspects open ways for practical implementation. The good news for organizations is that there is a fast-growing body of literature that suggests organizations that become more trustworthy and ethical are also more profitable (Collins and Porras, 2002; Cameron, 2003; Sharp Paine, 2003).
2.3 Conclusion

The understanding of modern corporate governance is converging on the stakeholder front. The basic function of corporate governance is to maintain and build trust. The board plays a decisive role within corporate governance and can serve within a service, control, or strategic role. Internationally, corporate governance systems are diverging with regard to board type, board size, and type of ownership. The trust management framework, based on the stakeholder view, supports the service role of corporate boards and caters to continental and Anglo-Saxon types of corporations. The trust management framework will support boards to achieve the core corporate governance function: maintaining and building trust.
3 The Concept of Trust

In this chapter I will analyze the phenomenon of trust. To create a well-grounded understanding of this complex phenomenon, I depict the different aspects of trust in relevant scientific areas, present potential definitions, differentiate trust from similar concepts, and shed light on the trust process.

3.1 Relevance of trust

Hosmer (1995, p.47) states that many economists, psychologists, sociologists, and management theorists support the importance of trust in the conduct of human affairs. Blau (1964, p.99) describes trust as "essential for stable social relationships." Weber (Eisenstadt, 1968, p.114) claims that the exchange of goods “is possible only on the basis of far-reaching personal confidence and trust.” Rotter, Chance, and Phares (1972, p.40) argue that “a generalized expectancy of trust or distrust can be an important determinant of behavior.” For Golembiewski and McConkie (1975, p. 131), “there is no single variable which so thoroughly influences interpersonal and group behavior as does trust.” Hirsch (1978, p.78), reaffirming its importance for interaction, labels trust a “public good, necessary for the success of economic transactions,” while Bok (1978, p.26), going even further, asserts “when trust is destroyed, societies falter and collapse.” Lewis and Weigert (1985, p.968) view trust as “indispensable in social relationships,” and Zucker (1986, p.56) seconds this assumption stating trust is “vital for the maintenance of cooperation in society and necessary as grounds for even the most routine, everyday interactions”(cf. Hosmer, 1995).

Business practitioners view trust as an important concept as well (Shaw, 1997; Lewis, 1999; Sprenger, 2002). Internal cooperation, commitment and motivation (Lewis, 1999; Osterloh and Frey, 2000; Sprenger, 2002), as well as in inter-firm collaboration (Parkhe, 1998; Boersma et al., 2003), depend on trust (Child, 2001). The organizational trend towards networks within and outside the firm, and the constant need for transformation, reinforce the importance of trust. In addition, innovation and organizational longevity are viewed as a result of trusting relationships (Osterloh and Frey, 2000; Clegg et al., 2002). However, at a time when trust is most needed, the scandals during the past few years proved that trust is a scarce good.

Before focusing on the ways to measure and develop stakeholder trust, I will analyze the different research fields to clarify the notion of trust. After doing so, I will distinguish trust from concepts similar to it, such as loyalty, reputation, trustworthiness, hope and faith. Finally I will present the definition of trust that best suits an integrative approach and describe the different aspects affecting the trust process.
3.2 Trust in the scientific literature

According to Swift (2001) the literature on trust is piecemeal, under-researched and fragmented across a variety of disciplines. Blois (1999) states that trust suffers in large part from being ‘superficially obvious’; it is so often used in everyday discourse that everyone knows what it means and how it should be used contextually (Barber, 1983). It is usually only when societal trust has been violated by unethical corporate behavior that commentators try to unravel the complex dimensions of what trust is and how it should be operationalized (Swift, 2001).

In the following, I will describe the relevant contributions of the research fields of philosophy, political science, sociology, economics, psychology, and management science to unravel the complexities of trust.

3.2.1 Contributions of philosophy

In the philosophic arena trust has never been a major focus. Plato, Thomas Aquinas, Hobbes and others have referenced trust in various ways, but never directly sought to explain the phenomenon. Hume can be considered the first philosopher to have written explicitly about the notion of trust (Baier, 2001). Baier, however is credited with the most thorough philosophical analysis of the trust phenomenon (Hartmann and Offe, 2001), while further philosophic contributions have focused on definitions of morality and on the context of intimate trust processes (Endress, 2002).

Bok (1978) argues that whatever is important to man thrives in an atmosphere of trust. Baier (2001) adds that not everything that thrives in an atmosphere of trust is valuable. For instance, she questions the value of a Mafiosi type of relationship, asserting that criminals are the real experts at trust. According to Baier, the average person only becomes aware of trust when it is scarce or not there. In that sense, trust is comparable to air (Baier 2001). Trust is not seen as valuable in itself, but only when it has moral value.

3.2.1.1 Why do we trust?

The question why we trust is answered with because we have to. Philosophers advance the simple Socratic wisdom according to which no one can be self-sufficient, but has to engage in relations with others. Since the information we have about others is incomplete, we need to trust them (see also Luhmann 2000).

3.2.1.2 How do we trust?

The question of how we trust is answered by Locke who argues that we follow a tripartite process: A entrusts B with a valued good C. When for example parents entrust their child to a caretaker, we (A) entrust the caretaker (B) our child (C) (Baier, 2001).
Trust can be rational but also unconscious. It can be intentional but also non-purposive. Following Govier (1997), rational trust is based on the sum of good reasons and proportional to the value of the matter in which we trust. Govier views trust as rational when we can make out motives and convictions on behalf of the trustee that are congruent with our own (Govier, 1997). Following Lagerspetz (2001) there is an inverse conscience-trust relationship: the more I trust, the less I am aware of it. In that line of argument trust would be unconscious. The question of “how do we trust” is answered on the one hand as a decision based on a rational process, and, on the other hand, as an unreflected act performed in a spontaneous manner.

3.2.1.3 What is trust?

The question of ‘what is trust’? is answered in very different ways as well. Baier (2001) sees trust as an act of will, and Lagerspetz (2001) as a state of mind. Köhl (2001, p. 130) even sees trust as a gift, since it is given without ulterior purpose. Baier depicts trust as a phenomenon featuring benevolence, morality, and transparency as well as vulnerability. Since one depends on the one trusted, one is vulnerable to the trustee’s potentially detrimental actions. Trust implies awareness of the risk it carries, and confidence that this risk is justified (Baier, 2001). But trust is also seen as a having an unreflected component when it develops into a routine. The intensity of trust can be variable. Trust can be weak, situational, complete, or even blind.

3.2.1.4 Morality test of trust

Baier distinguishes good trust from bad trust by introducing a morality test for trusting relationships. Although relationships based on fear or manipulation (Mafiosi types of relationships) can have similar results as trusting relationships, Baier believes a relationship is based on trust only when trust is morally justified. A relationship is morally justified when motives of the relationship are disclosed and partners freely decide to continue the relationship; a relationship based on abuse, threats or deceit while objectively achieving the same kind of results, would not fall under this category.

3.2.1.5 Conclusion

In conclusion, the contribution of philosophy to the understanding of trust provides basic answers to why we trust, how we trust and what trust is. We trust because we do not dispose of all relevant information; we trust by becoming vulnerable to the other in that we entrust a valued good; trust is based on benevolence, morality, and transparency as well as vulnerability and disposes of rational and reflected elements as well as affective and unreflected elements. A distinction between good trust and bad trust is drawn given the moral foundation.
3.2.2 Contributions of political science

The contributions of political science in explaining the trust phenomenon are less basic and more application oriented. Trust plays a significant role in explaining negotiation, peace building and democratization processes. The focus is mainly on the cultural aspects of trust as well as on the role political institutions play. Fukuyama (1995), for example, classifies high-trust and low-trust cultures and Sztompka (1995) evaluates institutions in post-communist countries based on their trust-building capabilities.

3.2.2.1 Notions of trust

Trust in the field of political science is seen as the basis of successful individual and collective interaction (Offe, 2001). Offe perceives opacity, lack of knowledge and social contingency as the central problems of trust. Similar to the philosophic contributors, he argues that actors have to trust each other since behavior cannot be predicted with certainty. Trust is classified as a means for informal social coordination that is based on moral and cultural resources. Unlike other mechanisms, such as power, trust cannot be bought, commanded, or formally taught.

Trust in political science is often depicted as a cognitive expectation. Trust is not seen as a mere calculation but rather as a conviction, based on observations and conceptions regarding the behavior of other people (Offe, 2001). This conviction assumes that others will not act in an opportunistic way. Trust can be observed in the low personal investment in information control and sanction mechanisms. It can also be identified by the willingness of a person to enter risky relationships.

In general contributors from the political science arena maintain that a higher level of trust is beneficial to society. Trust is considered to be valuable since it opens options for future actions. For Hardin (2001) trust is the key to social mobility and equal opportunity. Mistrust can lead to very high opportunity costs since it is self-reinforcing and limits options. Therefore trust is also seen as a rational strategy that should be followed for a society’s own interest. Hardin views trust and the capacity to trust as a form of human capital. Putnam and Uslaner see trust as a form of social capital (Putnam, 2000; Uslaner, 2002). Hardin argues that trust cannot be directly influenced, but only indirectly as a by-product of positive experiences (Hardin, 2001). However, trust always makes one vulnerable and Hardin (2001, p. 308) admits that blind trust can be foolish, as blind faith in a leader such as Hitler had demonstrated.
3.2.2.2 Focus of the field

Political science focuses on the institutions, conventions, and rules that can help to build trust among strangers. A doctor, for example, is often trusted not because the person per se is trustworthy, but because the educational or legal system behind the doctor is viewed as trustworthy. Only institutions that dispose of a moral value and a transparent execution of its actions can create trust (Hardin, 2001). These institutions help to balance the risk strangers face when interacting with each other. Hardin regards all institutions as trust creating that are not bureaucratic.

According to political science, democracies are a better system since they allow for moral values and transparent execution. Therefore, trust among those living in democracies is higher than in dictatorships (Eisenstadt, 2001).

3.2.2.3 Conclusion

The contribution of political science to the field of trust is applied research on trust building. It adds the notion of trust as a conviction, and values trust as a form of human or social capital that a society should build on out of self-interest. Even though trust is generally seen as a positive, blind trust is viewed as negative. Another contribution of political science is the distinction made between personal trust and institutional trust, which is the main focus.

3.2.3 Contributions of sociology

Most contributions to the topic of trust originated in the sociological realm. Trust is seen as a social phenomenon. There seems to be consensus that trust functions as a social resource that contributes to social coordination. It is considered a functional substitute for knowledge about other actors under circumstances of virtual anonymity. In the following I will describe the historical development of the notion of trust in the sociological area and depict the different sociological approaches to trust.

3.2.3.1 Historic development of the notion of trust

Max Weber (Eisenstadt, 1968) was the first to observe that formal social mechanisms, such as a legal system, were designed to guarantee or secure trustworthy conduct. Simmel (1908) argued that trust is one of the most important synthetic forces within society. Coleman (1984) claimed that the functioning of economic institutions assumed a foundation of trust. Simmel was the first to distinguish between personalized and generalized trust. He also distinguished between belief, knowledge-based trust, and emotion-based trust. Schütz (2003) distinguishes between familiarity (Vertrautheit) and trust (Vertrauen), and Parson
sees trust as a device enabling mechanisms such as money, power, influence and obligations. This view closely resembles what Luhmann later referred to as ‘system trust’ and Giddens ‘trust in expert systems’. Garfinkel and Goffman redirected attention from system trust back to interpersonal trust (Endress, 2002). Later Granovetter (1985) also rejects institutional arrangements as a basis for trust; instead he argues that economic behavior is embedded in informal social relationships and the obligations inherent in those relationships. Granovetter posits that trust in the past leads to trust in the future (Hosmer, 1995). Lewis and Weigert (1985, p.968) reinforce this belief and view trust as a collective attribute based upon relationships between people in a social system. Zucker (1986, p.54) explicitly states that trust comprises a set of social expectations shared by everyone involved in an economic or any other exchange. Zucker argues that trust originates from three sources: processes, people, and institutions (Hosmer, 1995).

Following Endress (2002) there are four dominant approaches to trust in contemporary sociology: Luhmann’s system-theoretic approach, the rational-choice argumentation posited by Coleman, the structuration theory put forth by Giddens, and the macro-sociological change perspective presented by Sztompka, each of which I will briefly outline below.

3.2.3.2 Luhmann’s notion of trust

Luhmann concentrates on the functionality of trust as a mechanism that reduces social complexity. He identifies trust as an instrument that bridges gaps in knowledge or information. Luhmann distinguishes between personal and systemic trust. He portrays a development towards systemic trust as society becomes more complex and differentiated. Since an individual makes a rational decision when choosing to trust, Luhmann argues that civilatory trust always contains a reflexive element. Implicitly, he sees trust as one of the steering mechanisms of social systems (Endress, 2002).

3.2.3.3 Coleman’s notion of trust

Coleman (1990) and other rational choice theorists view trust as a function of expected utility and risk involvement (Zey, 1998). The likelihood that actor A will trust actor B depends on the value that A attaches to B, and the probability of gain implicit in the specific interaction. Trust is thus seen as an economic transaction, based on expected benefits and utility. Trust is situation-specific and not an element of a relationship over time. However the “law of meeting again” (Luhmann, 2000, p. 46) and the necessity of maintaining a good reputation might influence the calculation. Trust in this view is completely rational and reflective. Endress and Zey criticize this view as reductionist (Zey, 1998; Endress, 2002). The emotional bases of trust are not to be considered, even though Zey believes them to be fundamental. Endress argues that, if
Coleman’s view were accurate, constant spying activity would be necessary to assure one of the relevant information and trust would therefore not be possible (Endress, 2002, p. 39).

3.2.3.4 Giddens’ notion of trust

Giddens (1990) takes an evolutionary view of trust to depict its role in modern society. He asserts that the lack of information in modern society results from what he terms “disembeddedness.” Put simply, social actors increasingly lose their roots in these times of globalization. The knowledge mechanisms of the pre-modern social environment are lost and substituted by scientific or functional expert systems. These expert systems can only survive if they are trusted. Hence, trust enables societies to operate in modern times. Here Giddens is not speaking of interpersonal trust but generalized trust in abstract systems. Actors trust based not only on conscious but unconscious ‘calculations’ (Endress, 2002).

3.2.3.5 Sztompka’s reflections on trust

Sztompka’s (1999) reflections on trust are based on the transformation processes recently undergone in eastern European countries. Following his reasoning, trust can be placed in:

- societal order arising from general trust
- institutional mechanisms, which labeled institutional trust or
- expert systems thought of as technological trust
- organizations which he calls organizational trust
- products called commercial trust
- representatives of professional groups in the form of role trust and finally in
- persons constituting personal trust

Since Sztompka deals with change mechanisms, he also focuses on the consequences of trust abuse, which can take several forms. Among them, Sztompka mentions fatalism, corruption, increased social control, xenophobia, paternalism, plus other types of hierarchical structures and increased legalistic relations (Endress, 2002).

Sztompka’s contribution is to never view trust as purely calculative. He also distinguishes a sociology that is based on a concept of the homo oeconomicus and another based on the human being as homo confidens (Bosshardt, 2001).

3.2.3.6 Conclusion

In conclusion, sociology approaches trust mainly as a reflective process. Brinkmann and Seifert (2000) see it as an attitude of plural expectations and a few view trust as an unreflected operating mechanism (Endress, 2002). In this vein, Noteboom (2002) examines trust as a conviction that is not based on proof, but the lack thereof, and Gambetta (2001) sees trust as a default. Given these considerations, Endress (2000) suggests that trust should
be viewed as an unreflected action, which would, of course, have consequences for any operationalization.

The contribution of sociology to the understanding of trust is its distinction of the different forms of trust. The main distinction calls attention to system and personal trust, but there are finer distinctions such as those of Sztompka. There is, however, no agreement on whether trust is a reflected or an unreflected process.

3.2.4 Contributions of economics

The contributions of the economic field are very theory oriented. While trust does not play a role in the classical economic models, in the later economic conceptions it does. In the following I will outline the view of transaction cost theory, principal-agent theory, and game theory on trust.

3.2.4.1 Transaction cost theory

In the classical economic models the ‘homo oeconomicus’ is seen as an all informed being. Since trust is only relevant in situations that lack of information, trust does not play a role in classical economic theory. In new institutional theory, though, trust and mistrust gain relevance.

One of the central assumptions of transaction cost economics is the belief that the agent is not to be trusted, and that the risk of opportunism is high. Opportunism is defined as “self-interest seeking with guile” (Williamson, 1985, p.47). It includes, according to Hill (1990), not only the more blatant forms of cheating, but also the less obvious but clearly calculated methods of misleading, distorting, disguising, and confusing. According to Hosmer (1995), this means that in a market setting principals have to negotiate and monitor detailed contracts to protect against opportunistic behavior. In a hierarchical setting, it means principals have to establish and review stringent controls for the same purpose. These contracts and controls, termed substitutes for trust, are needed only because untrustworthy agents can not be clearly identified. These substitutes for trust account for a high percentage of transaction costs involved in economic exchanges. Hill (1990) proposes that it is rational to reduce these transaction costs by acquiring a reputation for non-opportunistic behavior (see also: Williamson, 1993).

3.2.4.2 Principal-agent theory

Trust is also seen as a steering mechanism to deal with principal agent relationships. According to Ripperger (1998), trust can absorb ‘hold up’ mechanisms and alleviate adverse
selection problems. Ripperger analyses the trust process between two actors as a principal-agent relationship. She depicts a trust relationship based on a trust grantor and a trust receiver. Before trust is granted the principal faces an adverse selection problem, and has to screen for a trustworthy counterpart. Agents, trustworthy or not, tend to signal trustworthiness. The principal will try to evaluate the strength and stability of the motivation of a potential trust receiver and anticipate the receiver’s attitudes and intentions. The trust grantor tries to fill the information gap via extrapolation of existing information. The probability of a beneficial relationship is a product of the probability of the positive intentions on behalf of the agent and the probability that her competence to realize her intentions are not reduced by outside external events (Ripperger, 1998).

When trust is granted the principal commits to a risky input, a so-called ‘trust credit’. If the trust receiver accepts the trust granted, both enter into an implicit contractual relationship. The trust receiver can choose to honor or to breach the trust. This constitutes the moral hazard problem. The principal, for example, cannot always judge the level of effort expended by the agent. The trust receiver possesses private information about her true preferences and intentions and can act to the disadvantage or to the benefit of the trust grantor. The decision calculus of the trust receiver is influenced by her intrinsic motivation, her moral disposition, and her tendency towards altruistic behavior (Ripperger, 1998, p. 158).

Ripperger (1998) proposes that ‘trust’ is a rational strategy since it builds social capital, based on reciprocal altruism. If the trust receiver invests a lot of effort in fulfilling the trust expectation, she receives a credit, a moral entitlement towards the trust grantor. The next time the actors enter a trust relationship with a different constellation the former trust receiver can expect her trust grant to be honored as well. Following Ripperger, reciprocal altruistic behavior results in long-term mutual gain.

3.2.4.3 Game theory

Game theory supports the connection between trust and cooperation. Trust was once defined as “cooperative behavior in the prisoner's dilemma game” (Lewis and Weigert, 1985, p.975), but as Hosmer (1995) states, in a game with a finite number of plays the trusting actor with a strategy of unconditional cooperation will always lose to a nontrusting player with a strategy of unconditional competition. Hosmer (1995) argues that this definition is reasonable on the surface, but could easily be confused with naiveté, altruism, or even stupidity.

Friedland (1990) and Axelrod (1984), however, demonstrate the strategic advantages of trust, disassociating it from naiveté, altruism, and stupidity. They found that in games with an infinite number of plays—which are much more representative of the “real-world”—a matching or “tit-for-tat” strategy consisting of the systematic reciprocation of competitive and cooperative behaviors might not win outright but would substantially reduce the chance of loss. It would reduce the chance of loss because the tit-for-tat strategy would elicit more
cooperation from adversaries than strategies of unconditional cooperation or of unconditional competition (Hosmer, 1995). The adversary would come to believe that she could cooperate for mutual gain without risking exploitation. “Specifically,” Friedland concluded, “trust is most typically promoted when a party in an interaction shows a genuine responsiveness to the needs of its partner” (1990, p. 317). Hosmer therefore argues that Friedland brought rational self-interest back into the concept of trust.

3.2.4.4 Conclusion

The contributions of economists add a special analytical view to the trust process because they implicitly assume that trust is a cognitive and reflected process. As such, trust is seen as a rational strategy that increases social capital and enhances cooperation.

3.2.5 Contributions of psychology

Psychology places much emphasis on interpersonal trust. Contributors analyze different types of trust relationships such as symmetrical and asymmetric power relationships (Schweer, 1997). Interesting findings concern the mechanisms of trust and their self-stabilizing forces. These mechanisms lead other authors such as Luhmann, Gambetta, and Ripperger to call for more trust in trust.

3.2.5.1 Notion of trust

Trust is seen as a social attitude which disposes of cognitive affective and behavioral components (Schweer and Thies, 2003). Early research views trust as a personal variable that is stable and develops into a character trait (Erikson, 1966; Rotter, 1971). According to Erikson (1966), it develops in early childhood as a type of primordial trust. He suggests that an individual’s capacity to trust is explained by past experiences; good experiences contribute to a general capacity of a person to trust. Trust is seen as a behavioral attitude that has to be learned just like any other type of behavior. Deutsch (1958) also argues that childhood experiences decide a person’s capacity to trust or mistrust. In addition to Rotter and Erikson, Deutsch views trust as a situative variable that is not bound to the person but to a specific situation (Schweer and Thies, 2003).

Zand (1972) suggests that trust is the willingness of one person to increase her vulnerability to the actions of another person whose behavior she cannot control. Michalos (1990, p.620) adds the notion of an ultimate net good: “It is enough to think of trust as a relatively informed attitude or propensity to allow oneself and perhaps others to be vulnerable to harm in the interests of some perceived greater good.” This perceived greater good, Hosmer
(1995) assumes, might be on the interpersonal, organizational, or even social level; it is not necessarily a direct personal benefit to the trusting individual (Hosmer, 1995).

Butler and Cantrell (1984) proposed five specific components on which interpersonal trust is based on:

1. Integrity—the reputation for honesty and truthfulness on the part of the trusted individual.
2. Competence—the technical knowledge and interpersonal skill needed to perform the job.
3. Consistency—the reliability, predictability, and good judgment needed to handle situations.
4. Loyalty—the benevolence, or the willingness to protect, support, and encourage others.
5. Openness—the mental accessibility, or the willingness to share ideas and information freely with others (see Hosmer, 1995).

3.2.5.2 Trust as a self-reinforcing mechanism

Walker (2002) views trust as a phenomenon of reciprocity. Trust disposes of self-reinforcing mechanisms since the act of trusting places a moral obligation on the trustee. The trustee is therefore inclined to behave according to the expectations placed on him. In this sense trust reinforces itself. An initial placement of trust can trigger a mutually beneficial trust relationship. In this sense, trust is compared to optimism that tends to reinforce itself as a self-fulfilling prophecy (Uslaner, 2002).

3.2.5.3 Motives of trust

A trustee is not only seen to act on moral sentiments. It is acknowledged that he follows self-interest when intending to fulfill the demand for trust in a relationship. Only by demonstrating his trustworthiness will an actor be able to move towards a mutually beneficial relationship in the long run. In addition, whether guided by enlightened self-interest or not, the potential loss of credibility as well as fear of being subjected to social scorn can serve to pressure him. So there are various influences that lead to a justification of trust. Robust trust relationships are seen as the result of all influences that bear on the strategic and moral incentives on behalf of the trustee and the trusted as well as social norms to not breach trust. However, in a society with more and more short-term relationships, social pressures decrease and moral and internal motivations become more important for trusting relationships (Schweer and Thies, 2003).
3.2.5.4 Cultural differences

In general, contributions in psychology see a trusting attitude as beneficial. A trusting individual is seen as more satisfied and happy than a mistrusting person (Uslaner, 2002). The caveat is that all depends on one’s cultural background. A trusting person in a low-trust culture will be miserable, while a mistrusting person in a high-trust society will miss out on opportunities. In general, a ‘sane’ sense of personal trust that includes self-confidence regarding whom to and not to trust, is advocated (Schottländer, 1957).

3.2.5.5 Conclusion

The contributions of psychology mainly focus on the individual’s interpersonal and intrapersonal perspectives on trust. Psychologists especially focus on the functionality of trust as a moral obligation and stress the self-reinforcing character of trust. Even though trust is positively valued, cultural and situational differences need to be acknowledged.

3.2.6 Contribution of management science

Trust is considered by many contributors to the field a crucial leadership factor (Krystek and Zumbrock, 1993). Others emphasize the importance of a trust culture (see Bleicher, 1995; Hilb, 2000), and see trust as the key enabler for cooperation and innovation (Shaw, 1997). Many authors focus on specific stakeholder relations such as employees or investors (Seifert, 2001; DiPiazza, 2002).

3.2.6.1 Practical problems

Sprenger (2002) notices that trust only develops when it is used. Gambetta (2001) argues that so far trust has been neglected and the main strategy in business has been to economize on trust. Weibler (1997) states that mistrust is widespread, as the increased usage of control and monitoring software indicates. Gambetta (2001) thus argues that management à la Machiavelli, based on monetary incentives, fear, and manipulation seems the standard.

3.2.6.2 Notions of trust

In management research, trust is highly valued. In the strategy literature trust has been related to desirable outcomes such as competitive advantage (Barney and Hansen, 1994), and firm performance, as well as conflict and opportunism reduction (Doney et al., 1998; Zaheer et al., 1998). The marketing literature has focused on trust because customer satisfaction and long-term orientation are perceived consequences of trust (Dwyer et al.,
Management literature assumes the positive role of trust in business relationships (Shankar et al., 2002) in which it acts as a good predictor of employee satisfaction (Driscoll, 1978; Geyskens et al., 1999), reduces overall managerial uncertainty (Mayer et al., 1995), and serves as a form of organizational control (Creed and Miles, 1996). In the organizational literature, trust is thought to operate as a governance mechanism (Bradach and Eccles, 1989) that diminishes opportunism in exchange relations and promotes cooperation (Morgan and Hunt, 1994; Pavlou, 2002). Overall, trust is widely acknowledged as a key enabler (Shaw, 1997) of cooperative behavior (Hennart, 1988; Morgan and Hunt, 1994; Noteboom, 1996; Parkhe, 1998; Lewis, 1999; Brower et al., 2000; Child, 2001; Chami and Fullenkamp, 2002; Boersma et al., 2003), commitment and motivation (Ganesan, 1994; Lewis, 1999; Osterloh and Frey, 2000; Sprenger, 2002) creativity, innovation and knowledge transfer (e.g. McAllister, 1995; Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998; Osterloh and Frey, 2000; Clegg et al., 2002; Politis, 2003; Holste and Fields, 2005), and successful organizational transformations (Scott, 1980; Miles et al., 1997; Nieder, 1997; Rousseau et al., 1998; Winand and Pohl, 1998; Einwiller, 2003; Grabner-Kräuter and Kaluscha, 2003; Lusch et al., 2003).

### 3.2.6.3 Advantages of trust

Sprenger argues that trust is unlike a scarce resource in the sense that it does not decrease when employed but rather when not employed. Lewis (1999) views trust as a choice; when management chooses to apply it, trust can grow. A widespread argument is that a business operating in a culture of trust has major competitive advantages (Krystek and Zumbrock, 1993; Nieder, 1997; Shaw, 1997). It is argued that people can focus their energies on solving problems not on hiding them. High-trust cultures foster innovation, whereas low-trust businesses become bureaucratic and static. Alone trust is not sufficient, but without trust no relationship can succeed (Shaw, 1997; Lewis, 1999).

### 3.2.6.4 Creating trust

Weibler (1997) argues that leadership style has immense influence on the amount of trust within an organization. Shaw proposes focusing on results, integrity, and concern in order to increase trust within an organization. He argues that the integration of these three goals in leadership, organizational architecture and culture create the basis for long-term success (Shaw, 1997).

Lewis (1999) and other contributors suggest that trust can be influenced indirectly through competence, integrity, benevolence, and open communication. Competence is very important since it is positively correlated with achieving results. Integrity is important since a renunciation of manipulation influences perception of knowledge-based trust in a positive
way. Benevolence also furthers the perception of trustworthiness since it reduces the risk of opportunism. Open communication creates transparency and reduces agency problems of information asymmetry. The caveat Weibler mentions is, if trust is instrumentalized, mistrust is likely to follow.

3.2.6.5 Conclusion

The contribution of management science is practical. Building on the concepts that other fields provide, researchers mainly focus on aspects of a trust culture and trust building. Management science sees trust as beneficial and business enhancing.

3.2.7 Conclusion

In general, trust is viewed as a valuable resource and considered a social or human capital worth accruing. According to Rousseau, Sitkin et al. (1998) economists tend to view trust as either calculative (Williamson 1993) or institutional (North 1990), while psychologists commonly frame their assessments of trust in terms of attributes of trustors and trustees (Rotter 1967; Tyler 1990). Sociologists often find trust in socially embedded properties of relationships among people (Granovetter, 1985) or institutions (Zucker 1986). The main contributions across the fields are a closer distinction between trust as a reflective phenomenon and an unreflected phenomenon. Several forms of trust exist such as personal, organizational, institutional, and systemic. Philosophy and sociology provide theoretical foundations, while political science, management science, and psychology approach trust in a more practical way.
3.3 Forms of trust

Having outlined the contributions of different research fields, I will now illustrate the diverse forms of trust posited. Rousseau, Sitkin et al. (1998) view trust as a complex, dynamic social phenomenon that can take on various forms at different levels. Trust results from interactions that span individuals (Rotter, 1971), teams (Bigley and Pearce, 1998), organizations (Hosmer, 1995), institutions (Zand, 1972) and systems (Giddens, 1990; Luhmann, 2000). Trust is also seen as calculative and reflective (Zey, 1998) or non-calculative and pre-reflective (Endress, 2002). Trust can be very situation-specific or generalized in nature. Further distinctions view trust as either rational or emotional, or classify trust as calculus-based, knowledge-based, or identification-based.

3.3.1 General and specific trust

Specific or situational trust is limited to a specific case, in which it might be possible that a calculative process steers the trust action (e.g. when buying a car). But there are processes and actions in life where we are rarely aware of or question our trust, for example, when we trust in the information the media presents.

Scott argues that “specific trust is singular and cognitive” (Scott, 1980, p.811). Butler states that it requires a specific other and is only valid when expressed in this very relationship (Butler, 1991, p.643). Specific trust is based on the perception of situational information. Seifert (2000) argues that specific trust is based on a single case decision made within a specific context with one specific interaction partner.

Generalized trust, in contrast, can be understood as the basic disposition to trust a stranger or a group one is unacquainted with independent of the situation. A high general disposition to trust is linked to a positive view of human beings (Amelang, Gold and Kübel, 1984, p.200). It is a stable, but not inalterable or inter-individually varying personality trait. It stems from a generalization of experiences based on the trustworthiness of other people (Rotter, 1971). This is important to note that a general disposition to trust does not have to be contingent on personal experiences, but can be a result of socialization and learning processes within a culture. Generalized trust is therefore not a reflective process.

Similar to the notion of generalized and specific trust, Sztompka offers a distinction between diffuse and concentrated trust. We experience concentrated trust in relationships with friends or partners. This type of trust can also be called specific trust, whereas we employ diffuse

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10See also Sztompka’s distinction between concentrated and diffused trust (Sztompka 1995).

11Uslaner (2002) states that general trust differs depending on age, religion, and ethnic origin.
trust when dealing with strangers. There is a general assumption about the nature of human beings that influences our sense of diffuse trust (Sztompka, 1995).

In addition, Kenning differentiates specific trust into affective trust, reputation-based trust and experience-based trust. Following Kenning (2001), affective trust is an emotionally based attitude experienced in a specific trust relationship. Reputation-based trust is a cognitive type of trust in a specific relationship in which no information on the specific other is available. Experience-based trust is cognitive trust based on a history of exchanges between actors (Kenning, 2001).

Figure 10: Forms of trust (based on Kenning 2001)

3.3.2 Emotional-based trust vs. rational-based trust

Another classification of trust is given by Lewis and Weigert (1985) along the lines of rationality and emotionality. Following their argumentation, high rationality and high emotionality lead to ideological trust; trust based on high rationality and low emotionality is called cognitive trust. Emotional trust is based on a high emotional level but a low rational level and trust based on both low rationality and low emotionality is labeled routine trust. McAllister (1995) reduces the forms of trust to two main dimensions: cognition-based and affect-based.
The scholarly dispute about the nature of trust can be resolved by both distinctions, as general or emotional trust is certainly less reflected, while specific and cognitive trust is more conscious.

3.3.3 Personal, organizational, institutional, and system trust

Trust can also be classified according to the types of trust recipients. Bigley and Pearce (1998) research trust in individuals, groups and organizations, while Hubig (2004) distinguishes among personal, organizational, institutional, and systemic trust.

3.3.3.1 Personal trust

Personal, intrapersonal, and interpersonal trust are mostly researched by psychologists (Blau 1964; Butler 1991). Luhmann (2000) claims that intrapersonal trust is an important factor for interpersonal trust. Petermann (1985) states that the amount of intrapersonal trust is decisive for the development of interpersonal trust relationships. Interpersonal trust has been conceptualized as a product of two factors: an individual’s propensity to trust and an individual’s expectations about a trustee’s future behavior. The first factor, an individual’s propensity to trust demands a general willingness to accept vulnerability and rely on others.
in situations where opportunism is possible. The second factor depends on an individual’s expectations about the specific trustee’s future behavior (Schweitzer and Dunn, 2004). Luhmann (2000) suggests that personal trust increases commensurate with the trustee’s authenticity. When a trustee’s words and actions are congruent, interpersonal trust is built. Luhmann (2000) also enumerates behavioral options like jokes, unfamiliar initiatives, shorter communication, and openness as features of trusting relationships on a personal level.

3.3.3.2 Organizational trust

In addition to intrapersonal and interpersonal trust there are also intra-organizational and inter-organizational trust. Hosmer (1995) argues that the conceptualization of personal trust can also be applied to referents at other levels, such as groups or firms. McAllister (1995) distinguishes two main dimensions of organizational trust. **Cognition-based trust** relies on appraisals of others’ professional competence and reliability and is often based on a work track record. **Affect- or emotion-based trust** is present when people feel free to share their private feelings and personal difficulties, knowing that the other party will respond constructively and caringly (Whitener et al., 1998; Saparito, Chen and Sapienza, 2004). Zaheer et al. (1998) show that both interpersonal and inter-organizational trust influence firm performance.

3.3.3.3 Institutional trust

Institutional trust concerns how it informs the guiding principles, routines and controlling mechanisms of an institution. It is trust in norms and procedures and not direct trust placed in people; rather, it is a version of impersonal trust (Rousseau, Sitkin et al. 1998). Following McKnight and Chervany (2002), institutional trust is defined as the subjective belief with which organizational members collectively assess favorable conditions in place for successful transactions (Saparito et al., 2004).

3.3.3.4 System trust

System trust concerns trust in steering mechanisms of social interactions such as money or power. Actors do not place their trust in a specific person but in the functionality of an ‘expert system’ such as the value of paper money (Giddens, 1990; Luhmann, 2000; Janowicz and Noorderhaven, 2002). System trust is based on continual feedback on the functioning of the system, but does not depend on persons and seems non-reflective in nature (Endress 2002). Luhmann claims that system trust is learned more easily than personal trust, but control is more difficult since only experts exert control. Giddens argues that in modern times personal trust has been increasingly replaced by system trust. But Luhmann states that even if the importance of system trust increases, the relevance of
personal trust remains since experts key to the system are trusted in a personal way (such as a chancellor, judge or central banker).

Figure 12: Personal, organizational, institutional and system trust

3.3.4  Calculus-based trust, knowledge-based trust, identification-based trust

Lewicki and Bunker (1996) developed a trust categorization that differentiates calculus-based trust, knowledge-based trust and identification-based trust (see Figure 13). Similarly Rousseau, Sitkin et al. (1998) distinguish calculative and relational trust. Calculus-based trust predominates in a firsttime encounter and is based on rational choice deliberations. Trust emerges when the trustor perceives that the trustee’s intentions and actions are beneficial. The perceived positive intention derives from credible information regarding the intentions or competence of another (Barber, 1983). For instance, credible information about the trustee may be provided by others (reputation) or by certification (e.g., a diploma). Such "proof sources" signal that the trustee's claims of trustworthiness are true (Doney et al., 1998). Key for calculative trust to develop is consistent behavior, ‘You do what you say’ (Lewicki and Bunker, 1995). This type of trust is an act of will that has a strategic purpose.

According to Rousseau, Sitkin et al. (1998) the range of calculus-based trust is often limited to situations where evidence of failure to perform can be obtained in the short term. Exchanges based on calculus-based trust are likely to be terminated once violation occurs.
Knowledge-based trust derives from repeated interactions over time between the trustor and trustee. Information available to the trustor from within the relationship itself forms the basis of relational trust. Reliability and dependability in previous interactions with the trustor give rise to positive expectations about the trustee's intentions. Emotion enters into the relationship between the parties, because frequent, long-term interaction leads to the formation of attachments based upon reciprocated interpersonal caring and concern (McAllister, 1995).

Exchanges characterized by relational trust often are more resilient than calculus-based exchanges. Unmet expectations can be survived when relational trust exists, particularly if parties make an effort to restore a sense of good faith and fair dealing to their interactions (Rousseau et al., 1998).

Identification-based trust reflects a mutual respect for and support of each other’s motivation. Lewicki and Bunker (1995) consider this type of trust as the highest level of trust. It is intense and highly moral. Actors are able to anticipate each other’s reactions and know what type of behavior enables congenial collaboration. Common goals and shared
values form the basis for this relationship. According to Lewicki and Bunker, very few relationships attain this state. Further forms of trust are distinguished, for example, by the power structure within a relationship. Baier (2001) differentiates trust relationships based on power symmetry and trust relationships based on power asymmetry. Asymmetric trust relationships include those of a child to its parents or of people to god. According to Köster, asymmetric power relationships are common in the automobile industry, as the supplier often depends on the manufacturer (Köster, 2003). However, the power equation can change. Symmetric trust relationships are those in which power is equally distributed, as in partnerships. The character of the relationship also distinguishes trust formation. Strategic and moral elements inform relationships and trust is expressed implicitly and explicitly. In modern societies expert systems are trusted implicitly. Similarly, many companies enter into implicit trust relationships with society. Such relationships are thought to be beneficial, even though no explicit contract is concluded.

3.3.5 Conclusion

Summing up, there are many forms of trust among which the classifications of specific and general trust, cognitive and emotional trust, and personal, organizational, institutional and system trust are the most prevalent. These distinctions help to clarify the complex notion of trust.

3.4 Term classification

After analyzing the contributions of the various research streams and describing different forms of trust, I wish to clarify the terms of trust itself before broaching a definition. In daily conversation, trust can have very different meanings. In the following I will distinguish trust from similar concepts such as familiarity, confidence, hope and loyalty. I will also identify very specific concepts, such as reputation and trustworthiness, which relate to trust and trust building. Finally, I will draw a distinction between the antonyms of trust, mistrust and control.

3.4.1.1 Familiarity as the background of trust and mistrust

According to Luhmann (2001), familiarity is the basic element for all trust related concepts. Familiarity (Vertrautheit) is a fertile ground for trust and mistrust (Luhmann 2000). In a familiar environment the past dominates the present and the future. Trust and mistrust often build on experiences drawn from the past but are directed towards the future. Familiarity can exist with regard to people, objects, situations, circumstances, and issues that we know well.
In addition, Ripperger differentiates between the concepts of faith, hope, and trust (see Figure 14), according to the type of risk each mitigates (Ripperger, 1998, pp. 40).

### 3.4.1.2 Faith as a reaction to uncertainty

Ripperger (1998) views faith as a reaction to generalized uncertainty, such as the everyday uncertainties of life. We react with faith towards questions such as ‘Is the food safe?’ or ‘Will I wake up tomorrow?’ Trust, on the contrary, is more contingent on our assessment of a specific risk situation (Luhmann, 2003).

### 3.4.1.3 Hope as reaction to exogenous risks

In a situation where the random defines risk (such as natural disasters) one does not trust but rather hopes for a beneficial outcome. One does not place trust in the random but hopes in situations with exogenous risk instead. According to Ripperger (1998) we only trust in situations with endogenous risk, that is situations that depend on the behavior of other actors with whom a contract could theoretically be concluded.

### 3.4.1.4 Loyalty

Loyalty is a behavior that is often confused with trust. Endress (2002) states that loyalty can be built on trust, but can also exist without it. Morality is a key ingredient of trust. Loyalty, instead, builds on an interest-driven relationship in which, at its utmost, morality is lacking.

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Figure 14: Distinction of faith, hope and trust (adapted from Ripperger 1998, p. 40)
Indeed, many bonds of kinship or gangs (Mafia) are based on loyalty rather than trust (Hirschman, 1974; Barbalet, 1996; Endress, 2002).

3.4.1.5 Trust related concepts - trustworthiness and reputation

Swift (2001) posits that even though some researchers use the terms ‘trust’ and ‘trustworthiness’ interchangeably, trust is a situational factor of relationships whereas trustworthiness is a quality displayed by the parties who engender trust (Blois 1999). Trustworthiness is the perceived potential of an actor to fulfill trust granted. It is based on morality, external incentives, enlightened self-interest or altruism. Hardin (2002) ascribes moral aspects to the quality of trustworthiness, not the act of trust itself. Trustworthiness is a basis for trust and also a necessary ingredient for a trusting relationship (Mayer and Davis, 1999). According to Mayer and Davis (1999) trustworthiness is a perception whereas trust is an act based on a positive perception of trustworthiness.

According to Einwiller (2003), reputation is information about the trustworthiness of a third person with whom one has not had personal contact. Hosmer (1995) claims that reputation is the result of trustworthy behavior, and Granovetter (1985) argues that it is relayed by weak ties (Granovetter 1985). Blois (1999) posits that the difference between having a good reputation and being trusted is subtle but important. An organization with a good reputation can be relied upon to behave in a manner consistent with the reputation, but might not be trusted to behave ethically under uncertain circumstances (Swift, 2001). Hence trust encompasses more aspects of morality than reputation, but reputation takes on importance when direct information is not available.

3.4.1.6 The antonyms of trust - mistrust and control

Ripperger (1998) defines mistrust as the expectation of an opportunistic behavior on behalf of the trustee. Luhmann (2000) states that mistrust is not only the opposite of trust, but also a functional equivalent since it also reduces social complexity. Just as trusting a certain group of people reduces complexity of life, mistrusting a group of people, e.g. foreigners, simplifies life. Ripperger (1998) suggests that control can be a mechanism that reduces and destroys trust, but it can also provide the basis from which to maintain trust. From motivational theory we know that different forms of control can have different effects. Result-based controls can enhance trust and motivation while process-based controls can destroy trust and motivation.

Bigley and Pearce (1998) find that researchers increasingly view mistrust as a concept distinct from trust. For example, Sitkin and Roth (1993, p.373) posit that trust is a “belief in a person's competence to perform a specific task under specific circumstances,” whereas mistrust is a “belief that a person's values or motives will lead them to approach all
situations in an unacceptable manner.” Lewicki, Allister and Bies (1998) add that mistrust and trust are two different continua. Defining trust and mistrust as independent constructs is at odds with the perspectives of many other scholars, who view trust and mistrust as polar opposites (e.g., Rotter, 1967).

In conclusion, trust differs from familiarity, hope, faith, and loyalty. Trustworthiness and reputation are part of trust but are not trust. Mistrust and control are often viewed as opposites of trust, but it is important to note that control and mistrust can be essential in securing trust.
### 3.5 Definitions of trust

After clarifying the different forms of trust and various concepts similar to trust, I provide a brief overview of current definitions of trust. Some definitions veer toward tautology by referring to such similar concepts as trustworthiness or confidence. For example, Moorman, Zaltman, Desphande (1992) define trust as “the willingness to rely on an exchange partner in whom one has confidence.” Osterloh and Weibel (2000) define trust as “risking an input … based on an expected trustworthiness of a person …”.

Table 3: Definitions of trust

<table>
<thead>
<tr>
<th>Source</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moorman/Zaltman/Desphande (1992)</td>
<td>Trust is defined as a willingness to rely on an exchange partner in whom one has confidence.</td>
</tr>
<tr>
<td>Morgan /Hunt(1994)</td>
<td>Trust is the perception of confidence in the exchange partner’s reliability and integrity.</td>
</tr>
<tr>
<td>Plötner(1995)</td>
<td>Trust is the expectation towards a person or a group that they will not behave opportunistically with regarding events in the future.</td>
</tr>
<tr>
<td>Mayer / Davis / Schoorman(1995)</td>
<td>The definition of trust [...] is the willingness of a party to be vulnerable based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control the other party.</td>
</tr>
<tr>
<td>Doney/ Cannon (1997)</td>
<td>Drawing on literature in social psychology (...) and marketing, trust is defined as perceived credibility and benevolence of a target.</td>
</tr>
<tr>
<td>Ripperger (1998)</td>
<td>Trust is the voluntary provision of a risky input abandoning any explicit contractual safety and control measure against opportunistic behavior expecting that the trust receiver is motivated to voluntarily renounce any form of opportunistic behavior.</td>
</tr>
<tr>
<td>Rousseau, Sitkin, Burt and Cammerer (1998)</td>
<td>Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another.</td>
</tr>
<tr>
<td>Winand/ Pohl(1998)</td>
<td>Trust is a basic social disposition towards other people or institutions that varies across individuals. Trust enables one to reduce the complexity and contingencies of human and organizational actions. Trust therefore increases the capacity to act.</td>
</tr>
<tr>
<td>Sjutrs (1998)</td>
<td>An action can be called trusting if an actor risks a unilateral input within a relationship of self-interested individuals.</td>
</tr>
<tr>
<td>Hoy /Tschannen Moran(2000)</td>
<td>Trust is an individual’s or group’s willingness to be vulnerable to another party based on the confidence that the other party is benevolent, reliable, competent, honest and open.</td>
</tr>
</tbody>
</table>
Other definitions such as those offered by Hoy and Tschannen-Moran (2000) provide more precision and enable an operationalization in the organizational setting; according to them, trust is the willingness of an individual or group to be vulnerable to another party based on the confidence that the other party is benevolent, reliable, competent, honest, and open. The definitions of Mayer, Davis and Schoorman (1995), who view trust as the “willingness of a party to be vulnerable,” and Rousseau, Sitkin et al. (1998), who view trust as a “psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another” are the most commonly used definitions in management science. Hubig (2004) provides the widest definition of trust as he integrates dimensions of trustworthiness and referents of trust used in earlier definitions.

Many scholars stress the aspect of vulnerability and risk that trust entails. Others view trust as a consequence of trustworthiness that is based on benevolence, integrity, reliability, competence, and openness. These facets of trust (Tschannen - Moran and Hoy, 2000) are seen as key determinants of personal and organizational trust.

For further explorations I will combine the definitions of Mayer, Davis and Schoorman (1995), Hoy and Tschannen-Moran (2000) and Hubig (2004) to the below approach.

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osterloh/ Weibel (2000)</td>
<td>We understand trust as risking an input (action) based on an expected trustworthiness of a person (expectation).</td>
</tr>
<tr>
<td>Gambetta (2001)</td>
<td>When we say we trust someone or that someone is trustworthy, we implicitly mean that the probability that he will perform an action that is beneficial or at least not detrimental to us is high enough for us to consider engaging in some form of cooperation with him.</td>
</tr>
<tr>
<td>Hubig (2004)</td>
<td>Trust is an attitude/virtue, status or action regarding the maintenance or enlargement of options and benefits towards a person, organization, institution or system that is based on an expectation of competence, knowing that risk of the potential damage will exceed the expected benefit of the action.</td>
</tr>
</tbody>
</table>

Trust is a reflective action to become vulnerable to a person, a group, or an organization based on expectations of trustworthiness along the dimensions of competence, benevolence, reliability, openness, and integrity.
3.6 The process of trust

Having defined trust and differentiated other concepts, I will now focus on the process of trust. According to Boersma et al. (2003), the emergence of trust is a process (see figure 15). Even though trust is dynamic in nature and cannot be fully understood as an input-output process, a linear schema of trust development is helpful as a first approximation (Boersma et al., 2003). Adopting Seifert’s (2001) trust process design, I will detail the different steps it takes. Based on the claim by Rousseau, Sitkin et al. (1998) that the fundamental elements of interpersonal and organizational trust are comparable, the description in figure 15 reflects a prototypical trust process for organizational trust, rather than purely personal or system trust (Rousseau et al., 1998).

3.6.1.1 Trust situation

According to Luhmann (2000), uncertainty, risk of personal loss, and freedom of choice are the defining elements of a situation in which trust rules. If there is no uncertainty, actors know what is going to happen, so trust is not necessary to bridge the information gap. Lewis and Weigert (1985) argue that in situations of complete certainty trust is not needed. If there is no risk of personal loss, actors will be indifferent and see no need for action. Moorman, Zaltman, and Deshpande (1992) make the point that in the absence of vulnerability, the concept of trust is not necessary, since outcomes are not of consequence to trustors. Similarly, Coleman (1990) proposes that trust situations are those in which the
outcome depends on the performance of another actor; Granovetter (1985) insists that the very nature of trust provides the opportunity for trustee malfeasance (Bigley and Pearce, 1998).

If the situation provides no freedom of choice, a situation of dependency exists in which no trust can develop or is even required (Luhmann, 2000; Seifert, 2001). Gambetta (1988) claims that trust is only relevant when possibilities for exit, betrayal, and defection exist.

3.6.1.2 Trust decision

According to Seifert (2001) a trust decision can be based on routine, emotion, or rationality. Trust decisions based on routine are decisions such as whether to wait for the bus. Trust decisions based on emotions are, for example, decisions to commit to a romantic partnership. Decisions in the business context are often based on rationality, but many decisions are based on a combination of emotion, rationality, and routine (Cummings and Bromiley, 1996). The trust decision is influenced by personal and organizational factors. According to Seifert (2001) organizational legacy and organizational culture play a role, as well as leadership style and past success. In organizations with little success or an autocratic leadership style, people tend to mistrust rather than trust (Krystek and Zumbrock, 1993). Personal factors influence a trust decision as well, since individual trustworthiness and reputation can vary. Also the type of relationship, whether purely business oriented or partly private in nature, plays a role (Shaw, 1997; Ripperger, 1998; Luhmann, 2000; Seifert, 2001).

3.6.1.3 Trust expectation

When we decide to trust, we inherently expect the trustee to behave in a trustworthy way. According to Mayer, Davis and Schoorman (1995) trustworthiness contains the dimensions of ability, integrity and benevolence. Mishra (1996) extended the dimensions to include openness. Whitener, Brodt et al.(1998) based trustworthiness of managers on consistency, integrity, sharing and delegation of control, communication (e.g., accuracy, explanations, and openness), and concern. Hoy and Tschannen-Moran (2000) analyzed dimensions of organizational trustworthiness and identified benevolence, reliability, competence, integrity and openness (Tschannen - Moran and Hoy, 2000; Einwiller, 2003) as overarching dimensions across the literature. Hence, I will briefly outline these five dimensions: Benevolence refers to the demonstration of concern for the welfare of others. The expectation of benevolence is the confidence that one’s well-being or something one cares about will not be harmed by the trusted party (Tschannen - Moran and Hoy, 2000). Oftentimes this dimension is also labeled as concern or care (Shaw 1997). Whitener, Brodt et al. (1998) view benevolence as: 1) showing consideration and sensitivity to the needs and
interests of others, 2) acting in a way to protect these interests, and 3) refraining from exploiting others for one’s own benefit.

Reliability stands for consistency in behavior and signifies predictability. However, as Baier (2001) points out, mere predictability is not enough to establish trustworthiness. We do not trust traitors or killers, even if they behave predictably. Reliability for Tschannen-Moran (2000) therefore combines predictability and consistency with a sense of benevolence.

Competence hints at the technical aspect of trust. As Shaw (1997) states, the aspect of competence is often overlooked in everyday discussions of trust. In personal but also organizational trust terms, competence plays a crucial role in the development and maintenance of trust. Good intentions are often not enough; skills are often required to justify trust, especially in work-type relationships. We do not trust good-willed but incompetent mechanics, surgeons or bankers (Baier 2000).

Integrity specifically refers to the moral aspects of trust. Benevolence needs to be ethical. The benevolence of Mafia bosses towards their members is not ethically based and therefore does not create trustworthiness but rather loyalty. Whitener, Brodt et al. (1998) posit that integrity includes character, authenticity and an absence of opportunism.

Openness describes the extent to which an organization practices open communication and does not withhold relevant information. Enron communicated extensively with the public but withheld decisive information from its investors; in that sense, it was not open.

3.6.1.4 Trust action

According to Ripperger (1998) when we trust we commit to a risky input, and give the trustee a credit. Control is transferred and an investment is made with uncertainty as to its return. The trust receiver can honor or breach the trust received. His actions will depend on his intrinsic motivation (strategic self-interest), his moral disposition and his tendency toward altruistic behavior (Ripperger, 1998).

3.6.1.5 Conclusion

Viewing trust as a sequence of decision processes, we can focus on the parts of the process and develop a clearer understanding of how trust works. Especially, the dimensions of trust expectations are relevant to forming an organizational trust measurement perspective.
3.7 Conclusion

So far I have introduced the different contributions of various research fields to the understanding of trust. After describing the different forms of trust, I contrasted trust with similar concepts and then defined trust. In the end, I described a trust process that can serve as a basis for an integrated stakeholder trust management framework (ISTMAF).
4 Measuring organizational trust

As I have explored the concept of trust, presented definitions of trust, and discussed an overview of the different dimensions of trust, I will now explore the question of how to measure trust (RQ4). I will first review the foundations of the concept measured and explain the layout of my study. Following Tsch annen-Moran (2000) I will then describe the procedure for establishing a trust measurement. I will employ different methods and discuss their results and limitations throughout the presentation.

4.1 Foundations for trust measurement

First I will argue that trust can indeed be measured and then I will outline the critical dimensions of organizational trust deduced from the literature. I corroborate these findings with an analysis of 32 semi-structured interviews, which I conducted before and during the survey. I conclude this section by identifying my research unit and narrowing my operational definition of organizational trust to the specific form of stakeholder trust.

4.1.1 Feasibility of trust measurement

As presented in Chapter 3 researchers from different fields differ about the properties of trust, and, depending on their respective conclusions, decide whether trust measurement is feasible or not. Endress (2002) argues stringently that trust is unconscious and therefore not measurable. Lewis and Weigert (1985) classify trust as emotional and cognitive, while Mayer, Davis and Schoorman (1995) view trust as a purely cognitive process. Arguments for trust as a conscious mechanism are made by Rotter (1971), Butler (1991), Morgan and Hunt (1994), Cummings and Bromiley (1996), and a host of other researchers who have measured trust.

Trust in this dissertation is viewed as: 1) a cognitive, reflective process (Luhmann 2000), 2) an act of will (Baier 2001), and 3) a behavioral attitude (Schweer and Thies, 2003), which according to the basic work of psychologist L.L. Thurstone (1928), can be measured.

Many researchers also define trust in terms of positive expectations (Rousseau et al., 1998; Shankar et al., 2002; Ferrell, 2004). Mayer and Davis (1999) view trust as a behavioral outcome based on expectations and a positive evaluation of trustworthiness. Boersma,
Buckley et al. (2003) proffer that trustors must rely on their *perceptions* of trustee characteristics, while and Koufaris and Hampton-Sosa (2004) hold fast to the belief that perceptions of trustworthiness can be measured (see also Israel, Checkoway, Schulz and Zimmerman, 1994).

In conclusion, trust can be measured if viewed as a behavioral attitude based on reflective perceptions of trustworthiness. Following Tschannen-Moran (2000), this study holds stakeholder trust is a reflective process based on perceptions of trustworthiness.

### 4.1.2 Dimensions of organizational trust


#### 4.1.2.1 Evidence from literature

Hence within the framework of Mayer and Davis seven dimensions of trustworthiness can be identified as potential antecedents of organizational trust: *competence* (McAllister, 1995; Mishra, 1996; Tschannen - Moran and Hoy, 2000; Pavlou, 2002), *integrity* (Mayer et al., 1995; Hoy and Tschannen - Moran, 1999), *benevolence* (Mishra, 1996; Tschannen-Moran, 2000; Boersma et al., 2003), *reliability* (Pavlou, 2002), *transparency* (Mishra, 1996; Whitener, 1997; Whitener et al., 1998), *reputation* (Lewicki and Bunker, 1995; Doney et al., 1998) and *identification* (Shockley-Zalabak et al., 1999; Pavlou, 2002).

#### 4.1.2.1.1 Competence

Organizations are trusted because they deliver a certain service or good that fulfils a need or solves a problem. If the organization is not skilled or competent to do so trust will be low, since good intentions are not enough. Competence is a generalized perception that assumes the effectiveness of the organization’s ability to survive in the marketplace. Competence induced trust can include faith in the ability to deliver quality products or services, to compete dynamically, to survive in an ever-changing global economy, or to embrace
disruptive technological developments, such as e-business (Jarvenpaa and Tractinsky, 1999; Shockley-Zalabak et al., 1999; McKnight and Chervany, 2002).

4.1.2.1.2 Reliability

Following Hoy and Tschannen Moran (1999), reliability refers to the expectation of consistent and dependable behavior. Reliability describes the notion of benevolent predictability (Pavlou, 2002). Predictability with regard to opportunistic behavior does not constitute reliability (Baier, 2001). Consistency and congruency between words and actions build trust across stakeholder groups (Mishra, 1996); inconsistencies and incongruence diminish trust (Shockley-Zalabak et al., 1999).

4.1.2.1.3 Integrity

Integrity highlights the moral aspects of trust. Traits that are commonly described as character, honesty, or authenticity constitute an important factor of trust (Whitener et al., 1998; Hoy and Tschannen-Moran, 1999; Pavlou, 2002). Mishra and Spreitzer (1998) emphasize, that openness is not enough; an organization that is open about its illegal behavior will not earn trust. To create trust organizational behavior needs to be rooted in ethical behavior. Ad hoc integrity is seen to lead to mistrust; rather, a historical foundation, i.e. a ‘track-record’, needs to be established to maintain or to create trust (Elangovan and Shapiro, 1998).

4.1.2.1.4 Transparency

Many authors view accountability, openness, and transparency as a key construct of organizational trust. Especially after the corporate scandals in the wake of Enron (Turnbull, 2002; Dervitisiotis, 2003), openness or transparency describes the extent to which relevant information is not withheld. Butler (1991) established openness as an empirical measure for trust. Stakeholders are most likely to trust an organization when they view the organizational leadership as open and honest (Whitener et al., 1998; DiPiazza, 2002; Shockley-Zalabak and Ellis, 2004). Other researchers have also described the importance of openness, communication, and transparency as major contributors to team success (Smith and Berg, 1987; Schultz, 1995; Bennis and Biderman, 1997). Authors stress that openness needs to accompany responsibility, self-awareness, and social deftness. An organization that discloses important proprietary information is acting irresponsibly and is viewed as untrustworthy. Shockley Zalabak, Ellis and Ruggiero emphasize that an organization needs to know when openness is appropriate, but also how to communicate that openness (Goleman, 1995; Schultz, 1995; Cooper and Sawaf, 1996). Openness is closely linked to honesty but has been identified as a separate construct (Hoy and Tschannen-Moran, 1999).
4.1.2.1.5 Benevolence

Benevolence is seen as the confidence that one’s well-being or something one cares about will be protected or not harmed by the trusted party. This constitutes faith in the altruistic and moral disposition of the other. Organizational stakeholders perceive benevolence when concern, care, and interest are expressed by the respective organization (Edmondson, 1999). As a result, they have more trust in the organization. Cummings and Bromiley (1996) address concern as being demonstrated when a party, (whether a co-worker or the organization), does not take advantage when another party is vulnerable. Mishra (1996) describes concern as when one’s self-interests are balanced with others’ interests, whether at a team, organizational, or societal level.

4.1.2.1.6 Identification

Another proposed dimension of organizational trust is identification (Lewicki and Bunker, 1996; Shockley-Zalabak et al., 1999; Pavlou, 2002). Pavlou (2002) views familiarity and similarity as the basis for identification. Parkhe (1991) states that being similar leads to attraction and evokes positive attitudes. In the inter-organizational context, similarity “can generate homogenous expectations and common assumptions regarding a partner and partnership” and thus lead to trust and cooperative success (Ellis and Shockley-Zalabak, 1999; Pavlou, 2002). Identification in the context of trust especially relates to value congruence. Shockley and Ellis emphasize the importance of shared goals, values, norms, and beliefs (Schein, 1985; Shockley-Zalabak and Morley, 1994; Shockley-Zalabak, Morley and Cesaria, 1997; Ellis and Shockley-Zalabak, 1999). With deep identification, organization trust and organizational effectiveness prosper (Lewicki and Bunker, 1995; Shockley-Zalabak et al., 1999).

4.1.2.1.7 Reputation

Reputation is viewed as another basic antecedent of organizational trust (Granovetter, 1985; Einwiller, 2003; Steckbeck, 2004; Moran, 2005). In the cases where direct experience is absent, evaluation about an organization’s trustworthiness is based on reputation or third-party information (Granovetter, 1985; Lewicki and Bunker, 1995; Doney and Cannon, 1997). Third-party information is relied on especially in the beginning stages of a relationship. Calculative trust (Lewicki and Bunker, 1995) is mostly based on third-party information. Reputation therefore functions as an antecedent of trust. When ties are weak, information is necessary to reach a decision about whether to trust or not to trust (Melnik and Alm, 2005).
Evidence from qualitative interview research

I triangulated these findings based on the literature, with findings from an analysis of 32 semi-structured interviews (Miles and Huberman, 1994) I conducted before and during the survey. I use the interviews also to mitigate criticism of ‘measurement by fiat’ voiced by Cicourel (1964; Churchill, 1965; Kammeyer, 1965; Wilkins, 1965). During these interviews I asked respondents to report their understanding of the term trust, to depict in what sorts of situations they trusted, and to cite a critical incident when trust in an organization decreased (Woolsey, 1986). I interviewed constituents from six stakeholder groups (employees, clients, investors, suppliers, competitors and students), in which employees and clients represented a majority (for more information on sample and method see Chapter 5).

Following Miles and Huberman (1994), I transcribed the interviews and coded them with a consistent schema. I calculated the frequency of the codes and then assigned categories. These categories corroborate the findings presented in the literature, however, the importance, measured by frequency, shed a different light than the findings in the literature.

According to the literature, it seems that competence and reliability are the most important dimensions of trust, but the analysis of the interviews demonstrates that dimensions of concern, care, benevolence and integrity seem more relevant to respondents. Care and benevolence were referred to 168 times, integrity 116 times, while reliability was only mentioned 63 times and competence just 42 times. Interesting to note is the relative frequency that identification is mentioned. According to theoretical and empirical research, identification does not play an important role in the trust process; except for Shockley-Zalabak (2001), identification is rarely empirically tested as an antecedent to trust. It is also worth noting the importance transparency or openness plays as a dimension of trust (see 1.5.7).

Given these findings, seven dimensions of trust seem relevant for measurement. Boersma, Buckley et al. (2003) argue for the use of a more parsimonious framework encompassing just two dimensions: credibility and benevolence. While this framework increases parsimony, information is lost as to what dimensions really influence organizational trust, since credibility encompasses competence, integrity and openness. As this information is vital, I intended to test for these seven potential antecedents.

---

12 Cicourel (1964) posits that questionnaires using fixed-choice structures impose their measurement structure on reality. He proposes interviews as a superior way for examination of social constructs. Churchill (1965), Kammeyer (1965), and Wilkins (1965) agree, but argue that for the purposes of measurement, Cicourel does not offer any valid alternative. In this work I am trying to integrate interviews and questionnaires to increase validity of the measurement approach.
Table 5: Codes and categories of trust dimensions based on interview research

<table>
<thead>
<tr>
<th>Code</th>
<th># of code used</th>
<th>Category assigned</th>
<th>Total # of references</th>
</tr>
</thead>
<tbody>
<tr>
<td>concern</td>
<td>51</td>
<td>Benevolence/Care</td>
<td>168</td>
</tr>
<tr>
<td>care</td>
<td>46</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>benevolence</td>
<td>19</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>service</td>
<td>18</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>safety</td>
<td>13</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>listening</td>
<td>5</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>respect</td>
<td>5</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>altruism</td>
<td>3</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>being taken seriously</td>
<td>3</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>compassion</td>
<td>3</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>personal interest</td>
<td>2</td>
<td>Benevolence/Care</td>
<td></td>
</tr>
<tr>
<td>integrity</td>
<td>28</td>
<td>Integrity</td>
<td>116</td>
</tr>
<tr>
<td>absence of opportunism</td>
<td>20</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>sincerity</td>
<td>15</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>honesty</td>
<td>11</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>responsibility</td>
<td>11</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>betrayal</td>
<td>10</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>fairness</td>
<td>10</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>authenticity</td>
<td>4</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>deception</td>
<td>3</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>exploitation</td>
<td>2</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>hidden agenda</td>
<td>2</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>perception of exploitation</td>
<td>2</td>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>value congruence</td>
<td>35</td>
<td>Identification</td>
<td>75</td>
</tr>
<tr>
<td>identification</td>
<td>34</td>
<td>Identification</td>
<td></td>
</tr>
<tr>
<td>goals</td>
<td>3</td>
<td>Identification</td>
<td></td>
</tr>
<tr>
<td>purpose based trust</td>
<td>3</td>
<td>Identification</td>
<td></td>
</tr>
<tr>
<td>transparency</td>
<td>25</td>
<td>Openness/Transparency</td>
<td>66</td>
</tr>
<tr>
<td>openess</td>
<td>19</td>
<td>Openness/Transparency</td>
<td></td>
</tr>
<tr>
<td>communication</td>
<td>16</td>
<td>Openness/Transparency</td>
<td></td>
</tr>
<tr>
<td>accessability</td>
<td>4</td>
<td>Openness/Transparency</td>
<td></td>
</tr>
<tr>
<td>information flow</td>
<td>2</td>
<td>Openness/Transparency</td>
<td></td>
</tr>
<tr>
<td>reliability</td>
<td>32</td>
<td>Reliability</td>
<td>63</td>
</tr>
<tr>
<td>keeping promises</td>
<td>12</td>
<td>Reliability</td>
<td></td>
</tr>
<tr>
<td>breaking promises</td>
<td>11</td>
<td>Reliability</td>
<td></td>
</tr>
<tr>
<td>credibility</td>
<td>8</td>
<td>Reliability</td>
<td></td>
</tr>
<tr>
<td>competence</td>
<td>36</td>
<td>Competence</td>
<td>42</td>
</tr>
<tr>
<td>security</td>
<td>4</td>
<td>Competence</td>
<td></td>
</tr>
<tr>
<td>technical competence</td>
<td>2</td>
<td>Competence</td>
<td></td>
</tr>
<tr>
<td>reputation</td>
<td>25</td>
<td>Reputation</td>
<td>25</td>
</tr>
</tbody>
</table>

4.1.3 Unit of analysis and operational definition of stakeholder trust

In order to answer the research question of ‘how can trust be measured’ I need to specify my unit of analysis. Following Maguire (1999), the dyadic relationship between a person and a group or an organization is considered a viable unit of analysis. The unit of analysis in the research below is the trust relationship between a stakeholder and an organization. Initially I considered evaluating the unit of analysis based on three referents:
the organization itself, top management, and the direct contact or boundary-role person (BRP) (Currall and Judge, 1995). These considerations were inspired by Bromiley and Cummings (1996), Mishra (1996) and Shockley-Zalabak and Ellis (2004) as they measured organizational trust on these three levels. Even though there are very good theoretical reasons to measure organizational trust on different levels, I abandoned this endeavor because of time and resource constraints. The choice of the referent organization was made since, according to Fombrun (1996), the organization functions as an umbrella notion including relationships with top management as well as the relationship with the direct contact person or BRP.

In the context of my research with the single referent organization I operationalize stakeholder trust as:

A behavioral attitude by a stakeholder towards an organization based on the perception of the organization's trustworthiness evaluated along the dimensions of transparency, integrity, competence, benevolence and reliability and based on third party information (reputation), personal experience and value congruency (identification).

4.1.4 Conclusion

I argue that organizational trust can be measured when viewed as a behavioral attitude and based on perceptions of trustworthiness. These are assumptions that seem reasonable in the case of my research unit: the relationship of a stakeholder with an organization.

4.2 Procedure of trust measurement

With this understanding of my research unit and the potential seven dimensions of trust, I propose an elaborate procedure to measure stakeholder trust. First, however, I describe the process of item development and the experts’ review of the items.

4.2.1 Item development

Using the definition of stakeholder trust mentioned above, several survey items were crafted for each of the dimensions of trustworthiness. Although there are no existing measures that fit the proposed concept for all stakeholder groups in a business setting, there are several measures that provide a starting point. Mishra (1996) developed trust scales for employees based on four dimensions. Cummings and Bromiley (1996) developed items based on the
notion of cognitive and affect-based trust; Hoy and Tschannen-Moran (2000) designed scales to measure trust among the faculty at schools. Shockley-Zalabak and Ellis (2004) created trust scales for employees based on a five-dimensional version of Mishra’s framework. An analysis of these items revealed that the items were not applicable to all stakeholder groups in a generalized organizational setting and not all dimensions had been covered.

Using the above-mentioned items as a basis, I added items for the dimensions not found in the literature. I ensured that all items could be applied across different stakeholders by removing any specificity to one stakeholder group. I reformulated the items and included general information questions about the respondents. I also included control items and two items on trust and trustworthiness. Finally I translated the items into German, as the survey was to be conducted in a predominantly German-speaking setting. The initial format of the trust scales was based on a 7-point Likert response set, with answers ranging from strongly agree to strongly disagree.

Examples
In the following I provide sample items for each of the seven dimensions of trustworthiness being measured:

- **Competence:** I think that Organization XX is very competent in its field.
- **Reliability:** Organization XX is consistent in its communication and actions.
- **Integrity:** Organization XX bases its relationship with stakeholders on mutual respect.
- **Transparency:** Stakeholders are told when things are going wrong.
- **Benevolence:** Organization XX takes unfair advantage of stakeholders. (negative)
- **Reputation:** People that I know speak highly of organization XX
- **Identification:** I can identify with the goals and mission of organization XX

I developed 52 items that assessed each proposed element of trust so that they were applicable to all stakeholder groups in a generic organizational setting. Provisions were made for cases in which answers could not be given by specific stakeholders. An option of “not applicable” was inserted in the response set.

Following Hoy and Tschannen-Moran (1999) the development of the instrument went through four phases: (1) a panel of experts reacted to the items, (2) a preliminary version was field tested, (3) a pilot study was conducted to test the factor structure of the instrument, its reliability, and its validity, and (4) a large-scale study was conducted in which the psychometric properties of the final instrument were assessed.
4.2.2 Panel of experts

In order to assess content validity, the trust survey was submitted to a panel of experts, all professors familiar with the topic (Lynn Sharp Paine, Megan Tschanne-Moran, Aneil Mishra, Pamela Shockley-Zalabak, and Deepak Malhotra). The panel was asked to judge the items on their wording to ensure logical coherence with the construct. Some items were reworded, some dropped and others added. There was consensus that the items measured all the facets of trust and were adequately worded for an overall application to stakeholders in a generic organizational setting. Hence, content validity of the items was approved.

4.3 Field Test

After the expert review I field-tested the questionnaire to avoid mishaps in the rollout.

4.3.1 Purpose

The purpose of the field test was to see whether the instructions of the questionnaire were clear and whether the response set was appropriate. I also intended to test the face validity of the items, overall response time, and reliability of the measures.

4.3.2 Procedure

I interviewed four different stakeholders: one employee, one client, one supplier and one student. I asked them to respond to the questions and to give feedback on the items and any other issues they wished to share.

In addition, a seminar group and a second group of professionals were asked to fill in the online version of the questionnaire anonymously. I solicited feedback on the handling of the online version, the appropriateness of the setup and the clarity of items. Out of the approximately 60 people solicited, a total of 34 respondents completed the survey.

4.3.3 Results

In the following I present a brief overview of the field test results. The interviews yielded insight into wording problems of several items and indicated a perceived repetitiveness of
questions. The length of the survey was deemed too long.\textsuperscript{13} Respondents approved the face validity of the questions in general but identified overlap between the constructs of benevolence and integrity.

Based on the results of the 34 survey responses,\textsuperscript{14} descriptive analyses have been conducted (see Appendix A). The demographic analysis showed that 13 respondents were female and 21 male; 45% of the respondents were in the age group between 18 and 30, 45% between 31 and 45, and 10 percent above 45 years old. Most respondents identified themselves as clients (13), followed by employees (11), and the media (4), with the rest distributed across NGO’s, competitors, suppliers, competitors and society.

4.3.3.1 Convergent validity

In order to establish construct validity, Hair (1998) and Nunnally and Bernstein (1994) suggest examining item correlations to ensure convergent validity. Convergent validity assesses the degree to which two measures of the same concept are correlated. High correlations indicate that the scale is measuring its intended concept (Hair 1998, p.118). Hayes argues that, depending on context, correlations well above .4 indicate good convergent validity (1998).

The five items for \textit{competence} loaded with correlations between .65 and .85 (Pearson r), indicating a good construct. Since all of these five items demonstrate a high convergent validity, replacement of the lowest correlating item would be considered to reduce survey length.

Three of the four items of the \textit{reliability} dimension correlated between .52 and .73 (Pearson r), whereas the reverse item of this dimension showed almost no signs of correlation. By checking individual responses it seemed the nature of the reverse item had, in many cases, not been detected. Many respondents answered the negatively worded item positively. Here a rewording to a positive item or a complete replacement was considered.

The four items of the \textit{integrity} dimension correlated between .66 and .86 (Pearson), indicating a good construct.

The four items of the \textit{transparency} dimension showed correlations between .49 and .84 (Pearson), indicating that one item was less stable than the others. This item was also a candidate for deletion, especially given the constraints in number of items.

\textsuperscript{13} This finding can be attributed to the fact that in the first questionnaire, items for a second referent, top management, were included.

\textsuperscript{14} Listwise deletion was applied for incomplete responses.
The four items of the *benevolence* dimension showed correlations between -.36 and .84 (Pearson r). The two reverse items again demonstrated low correlations (-.36 and -.26), indicating that these items should be dropped, rephrased or replaced.

The three *reputation* items were correlated at approximately .86 and the five *identification* items correlated between .64 to .88, indicating convergent validity of the constructs.

Table 6: Correlations field test

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Dimension</th>
<th>min</th>
<th>max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
<td>0.65</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td>0.12</td>
<td>0.73</td>
<td></td>
</tr>
<tr>
<td>Integrity</td>
<td>0.66</td>
<td>0.86</td>
<td></td>
</tr>
<tr>
<td>Transparency</td>
<td>0.49</td>
<td>0.84</td>
<td></td>
</tr>
<tr>
<td>Benevolence</td>
<td>-0.36</td>
<td>0.84</td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td>0.85</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>Identification</td>
<td>0.64</td>
<td>0.88</td>
<td></td>
</tr>
</tbody>
</table>

4.3.3.2 Reliability

Another important aspect is to test the reliability of the trustworthiness dimensions. Reliability according to Hair (1998) is the extent to which a set of variables remains consistent in what it intends to measure. If multiple measurements are taken, reliable measures will all prove to be consistent in their values. Reliability differs from validity in that it does not relate to *what* should be measured, but to *how* it should be measured (Hair 1998, p.90).

The most common metric for measuring reliability is Cronbach’s alpha. Values of Cronbach’s alpha range from 0 to 1, with values of 0.6 and 0.7 deemed the lower level of acceptability (Nunnally, 1967; Hair et al., 1998). For the field test I calculated alphas for every dimension and tested reliability values for scales if items were deleted.

Table 7: Reliability measures - field test

<table>
<thead>
<tr>
<th>Cronbach Alpha</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
<td>0.922</td>
</tr>
<tr>
<td>Reliability</td>
<td>0.594/0.833*</td>
</tr>
<tr>
<td>Integrity</td>
<td>0.937</td>
</tr>
<tr>
<td>Transparency</td>
<td>0.899</td>
</tr>
<tr>
<td>Benevolence</td>
<td>0.419/0.556*</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.941</td>
</tr>
<tr>
<td>Identification</td>
<td>0.935</td>
</tr>
</tbody>
</table>

* if 1 item deleted
The Cronbach alpha for the competence dimension is .922, which well exceeds the cutoff criterion for reliability measures. The alpha for the reliability dimension, however, was only .62. The analysis indicates that without the reverse item the alpha would be .83, which is acceptable. The Cronbach alpha for the integrity dimension is .94, for the transparency dimension .90 indicating a high reliability. The benevolence dimension, however, shows a very low Cronbach alpha of .26, and even when dropping the reverse coded items, the value did not increase significantly. The design of new items seems to be advised in this case. Alphas for reputation and identification indicated a high reliability.

4.3.3.3 Conclusion

The initial analysis of field test results demonstrated problems with certain items, especially the negatively worded ones. Low Cronbach alphas on the reliability and benevolence dimensions suggested the need for a reformulation of the items.

An overall concern was raised with respect to the length of the survey and perceived repetitiveness of the questions.15

4.3.3.4 Predictive validity test

For further information on the predictive properties of the measurement, I conducted a discriminatory analysis using SPSS 12.

4.3.3.4.1 Purpose

Discriminatory analysis can be used to evaluate the predictive validity of a model (Nunnally and Bernstein, 1994). Predictive or nomological validity refers to the degree that the summated scale makes accurate predictions of other concepts in a theoretically based model (Hair 1998). In this case I used direct trust and trustworthiness measures included in the survey as concepts to be predicted.

15 In the field test, I initially included a second referent, which increased the length and perception of repetitiveness.
4.3.3.4.2 Procedure

I first established two groups, based on responses to items f7: ‘The organization is trustworthy’ and f38: ‘I trust the organization’. All respondents with low trust values (1-3) were classified into the ‘low-trust’ group, and respondents with high trust values (5-7) into a ‘high-trust’ group. Respondents with neutral responses and no responses were deleted from the analysis. In this case 31 of 34 data sets were used in the analysis and the weakly correlating items were omitted.

4.3.3.4.3 Results

The results of the discriminatory analysis suggest quite strong predictive powers and discriminatory effects of the model. To discern the complete trust dimension the predictive values of the response to the items trust and trustworthiness were between 71 % and 87%. For the separate dimensions competence, reliability and benevolence the predictive power was high, since 83.9% of original grouped cases were correctly classified.

Table 8: Predictive validity measures - field test

<table>
<thead>
<tr>
<th>Percentage of correct grouping (in high or low trust groups)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
<td>83.90%</td>
</tr>
<tr>
<td>Reliability</td>
<td>83.90%</td>
</tr>
<tr>
<td>Integrity</td>
<td>80.60%</td>
</tr>
<tr>
<td>Transparency</td>
<td>87.10%</td>
</tr>
<tr>
<td>Benevolence</td>
<td>83.90%</td>
</tr>
<tr>
<td>Reputation</td>
<td>87.10%</td>
</tr>
<tr>
<td>Identification</td>
<td>71.10%</td>
</tr>
</tbody>
</table>

The integrity dimension supported a correct discrimination in 80.6% of the cases. The transparency and the reputation dimension also supported a high discrimination rate of 87.1% of the cases. The identification dimension only showed 71% accuracy. These results suggest quite strong predictive or nomological validity of the constructs.

4.3.4 Conclusions from field test

During the interviews and the analysis of the data several problems appeared, such as negative wording of items, survey length, and survey layout.
Negative wording of items

One of the most critical issues seemed to be the negative wording of items. In the literature the discussion about the value of reverse coded items is unclear (Cole, 2004). Some theorists, such as Nunnally (1978) argue reverse coded items are necessary to improve reliability of responses. Reverse coded items diminish non-attending behaviors, prevent acquiescence, and satisficing (Weems, Onwuegbuzie and Lustig, 2003). Increasingly, researchers are recommending that this practice be undertaken with caution. Several studies have found that reverse items can potentially confound factor structure (Davis, 1989; Sweeney, Pillitteri and Kozlowski, 1996; Taylor, Fraser and Fisher, 1997; Cole, 2004). I seem to have found similar confounding errors, which can be attributed to patterns of ‘yea or nay saying’(Couch and Keniston, 1960) or simply careless responding. For further testing I thus decided to exclude the reverse coded items.

Response rate

In order to balance the effect of non-attending behaviors I decided to shorten the items as well as the questionnaire. Items were reworded and tested following the guidelines put forth by Michael Cole (2004). Reducing the number of items to four per dimension reduced the number of items from 52\(^{16}\) to 44. By reducing the survey length, I hoped to increase the response rate as well as the reliability of the responses, since non-attending behaviors correlate with survey length.

Survey layout

As a consequence of the field test I also changed several layout options. I reduced the options of stakeholder groups to six and reduced the answer scale from seven to five points. Hayes (1998, p.71) claims that reliability levels remain constant after five scale points, suggesting a minimal utility of using more than five points. For the sake of easier online handling I thus lowered the response scale from a 7-point Likert scale to a 5-point Likert scale, enabling easier navigation of the online survey.

Concluding, I dropped the reverse coded items, reworded remaining items, shortened the survey, and improved user friendliness through layout changes. Finally two experts\(^{17}\) reviewed and approved the changes.

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\(^{16}\) Initially 72 items were asked, including the items for the second referent, top management.

\(^{17}\) Prof. Dr. Emil Walter-Busch and Dr. Michael Cole.
4.4  

Pilot test

After the changes in the field test, I opted for a pilot test before presenting the questionnaire to a larger audience.

4.4.1  

Purpose

The specific purpose of the pilot test was to determine whether the new survey solved the problems of validity and reliability encountered in the field test.

4.4.2  

Procedure

A sample of different stakeholders of two organizations was chosen: one small business enterprise in the manufacturing sector in Switzerland and one large business organization in the transport sector in Germany. These two groups were selected specifically to test for their differences in size, sector, and national background. Upon obtaining consent from top management, I collected data in both organizations using different approaches.

4.4.2.1  

Organization 1

In organization 1 the survey was administered partly through paper and pencil and partly online in March 2005. Surveys to employees of organization 1 were distributed on a pencil and paper basis. Clients and suppliers were contacted via email and directed to the online survey site. Two waves were conducted in order to increase response rates: The final response rates are shown in Table 9.

Table 9: Response rates pilot test - organization 1

<table>
<thead>
<tr>
<th>Case 1 (CH)</th>
<th>Employee</th>
<th>Investor</th>
<th>Supplier</th>
<th>Partner</th>
<th>Client</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>90%</td>
<td>45%</td>
<td>11%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

18 Even though German- speaking Switzerland and Germany are culturally close, they remain distinct enough to enable a test of cross-national validity.
4.4.2.2 Organization 2

The survey for organization 2 was administered only online. Respondents were members of a social research network who had been asked to participate in the pilot study. Respondents knew organization 2 well, which ensured informed responses. Out of 700 people queried, 148 responded, which corresponds to a response rate of 21%.

In total I gathered 260 responses for the pilot test; 112 responses for organization 1 and 148 for organization 2. Most of the respondents were clients and employees, 23 were investors, 35 were suppliers and 19 were self-selected partners, which is considered to be a good distribution for a pilot test (see Table 10).

Table 10: Response distribution pilot test

<table>
<thead>
<tr>
<th></th>
<th>Employee</th>
<th>Investor</th>
<th>Supplier</th>
<th>Partner</th>
<th>Client</th>
<th>Society</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1 (CH)</td>
<td>46</td>
<td>12</td>
<td>21</td>
<td>6</td>
<td>26</td>
<td>1</td>
<td>112</td>
</tr>
<tr>
<td>Case 2 (D)</td>
<td>6</td>
<td>11</td>
<td>14</td>
<td>13</td>
<td>102</td>
<td>2</td>
<td>148</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>23</td>
<td>35</td>
<td>19</td>
<td>128</td>
<td>3</td>
<td>260</td>
</tr>
</tbody>
</table>

4.4.3 Results

Analogous to the tests in the field test, I was checking for convergent validity using correlations, reliability using Cronbach alphas and predictive validity using discriminatory analysis. In addition, I employed exploratory factor analysis to determine convergent and discriminatory validity of the constructs (Hair et al., 1998). I focused on reporting results that indicate that the problems of the field test were satisfactorily resolved.

4.4.3.1 Convergent validity - Correlations

The dimensions with the new item set still attained good levels of convergent validity.\textsuperscript{19} Especially the dimension of \textit{benevolence} benefited the item change. One \textit{reliability} item still correlated lower than others and items for integrity correlated lower than did items for other dimensions, but following Hayes (1998) the level of convergent validity in general was very high.

\textsuperscript{19} All correlations statistically significant at p<.01 level
4.4.3.2 Reliability

Cronbach alphas remained high with the new item battery and increased significantly in dimensions that formerly included reverse coded items.

Table 12: Reliability pilot test

<table>
<thead>
<tr>
<th>Dimension</th>
<th>minimum</th>
<th>maximum</th>
<th>minimum</th>
<th>maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
<td>0.434</td>
<td>0.801</td>
<td>0.384</td>
<td>0.725</td>
</tr>
<tr>
<td>Reliability</td>
<td>0.414</td>
<td>0.66</td>
<td>0.395</td>
<td>0.576</td>
</tr>
<tr>
<td>Integrity</td>
<td>0.59</td>
<td>0.597</td>
<td>0.516</td>
<td>0.559</td>
</tr>
<tr>
<td>Transparency</td>
<td>0.506</td>
<td>0.638</td>
<td>0.428</td>
<td>0.601</td>
</tr>
<tr>
<td>Benevolence</td>
<td>0.643</td>
<td>0.728</td>
<td>0.536</td>
<td>0.656</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.502</td>
<td>0.795</td>
<td>0.428</td>
<td>0.713</td>
</tr>
<tr>
<td>Identification</td>
<td>0.749</td>
<td>0.813</td>
<td>0.647</td>
<td>0.719</td>
</tr>
<tr>
<td>N=260</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4.3.3 Predictive validity - Discriminatory analysis

The discriminatory analysis confirmed the results of the field test and showed high grouping predictions for high-trust and low-trust groups.

In this case I tested the prediction for groups based on the item “I trust the organization” and “I think the organization is trustworthy” separately (see Table 13). All in all the dimensions seemed to predict trust better than trustworthiness, but predictive validity in both cases is very high.
Conclusion

These results indicated that the major problems in the field test had been resolved and that I could proceed with the larger analysis. However, since the sample size was beyond 100, I could perform an additional test of convergent and discriminant analysis using exploratory factor analysis (Hair et al., 1998).

Exploratory factor analysis

According to Hair, Anderson et al. (1998), the general purpose of factor analysis is to condense information contained in a number of original variables into a smaller set of new, composite dimensions, with a minimum loss of information.

Purpose

Exploratory factor analysis (EFA) supports the identification of structures and data reduction. In this case I will use EFA to explore structures in the item responses based on convergent and discriminant validity (Hair et al., 1998).

Procedure

I submitted the data to a principal axis factor analysis with a varimax rotation, using SPSS 12. Following Koufaris and Hampton-Sosa (2004) each item should load highest on its related factor and have very low loadings on unrelated factors. Also, the highest factor loadings for each item should be significantly above a threshold level determined by the number of variables, factors, and data points in the sample (Koufaris and Hampton-Sosa,
According to Hair et al. (1998, p.112) a reasonable factor cut-off point for my sample size is 0.4.

4.4.3.5.3 Results

As result a seven factor solution is proposed, which explains 78.1 percent of the variance in the data. These seven factors are highly distinct and the items represent strong convergent and discriminant properties. However one item (f15) does not load very strongly on any factor (<.04) and two items (f12, f14) load on two factors at about the same rate. One of the items of the reputation scale (f27) loads with the benevolence factor more than with the reputation factor.

Table 14: Exploratory factor analysis pilot test

<table>
<thead>
<tr>
<th>Rotated Component Matrix(a)</th>
<th>B</th>
<th>T</th>
<th>ID</th>
<th>C</th>
<th>REP</th>
<th>IN</th>
<th>REL</th>
<th>T Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f26 does not abuse stakeholders</td>
<td>0.83</td>
<td>0.30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f25 is fair</td>
<td>0.66</td>
<td>0.32</td>
<td>0.35</td>
<td>C</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f27 enjoys a high reputation</td>
<td>0.56</td>
<td>0.46</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f23 is caring</td>
<td>0.57</td>
<td>0.43</td>
<td>0.34</td>
<td>B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f24 listens to my needs</td>
<td>0.56</td>
<td>0.40</td>
<td>0.35</td>
<td>REL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f20 says if something goes wrong</td>
<td>0.79</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f21 is transparent</td>
<td>0.38</td>
<td>0.69</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f22 openly shares all relevant information</td>
<td>0.67</td>
<td>0.31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f19 explains its decisions</td>
<td>0.54</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f15 is reliable</td>
<td>0.39</td>
<td>0.31</td>
<td>0.36</td>
<td>0.36</td>
<td>0.34</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f37 I feel connected with the organization</td>
<td>0.86</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f36 my personal values match the values of the organization</td>
<td>0.83</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f35 I can identify with the organization</td>
<td>0.72</td>
<td>0.37</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f10 is very competent in its area</td>
<td></td>
<td>0.77</td>
<td>0.33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f11 generally has high standards</td>
<td>0.76</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f9 is able to reach set goals</td>
<td>0.40</td>
<td>0.54</td>
<td>0.31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f8 can successfully adapt to changing demands</td>
<td>0.45</td>
<td>0.50</td>
<td>0.34</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f12 is consistent when dealing with stakeholders</td>
<td>0.48</td>
<td>0.50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f33 people I know speak highly of the organization</td>
<td>0.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f34 Stakeholders are positive towards the organization</td>
<td>0.75</td>
<td>0.35</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f30 has high moral standards</td>
<td>0.44</td>
<td>0.30</td>
<td>0.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f17 does not try to deceive</td>
<td></td>
<td>0.33</td>
<td>0.60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f18 treats its stakeholders with respect</td>
<td>0.38</td>
<td>0.31</td>
<td>0.57</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f13 communicates regularly important events and decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f14 does what it says</td>
<td>0.31</td>
<td>0.30</td>
<td>0.40</td>
<td>0.42</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis, Rotation Method: Varimax with Kaiser Normalization.

4.4.4 Conclusion

All the items except for f15 and f12 in Table 14 load on their related factors with factor loadings over 0.4 and load on other factors with small loadings, mostly under 0.4. Therefore, the scales show rather good convergent and discriminant validity (Gorsuch, 1997). The
reliability dimension however encounters some problems since convergent and discriminatory effects are rather low. These problems could be sample specific or even attributed to the extraction and rotation method used (Hair 1998). I decided to continue data collection, hoping that an increased sample size would achieve higher levels of convergent and discriminatory validity for the factor reliability.
4.5 Large scale study

After extensive pre-testing and satisfactory preliminary results, I distributed the questionnaire to more organizations. My intention was to collect data from four organizations in different sectors and different countries, to establish a trust measurement that could be used across organizations, sectors and cultures. I continued to survey stakeholders of organization 2 and gained permission to survey stakeholders of two more organizations in different sectors.

4.5.1 Sample

In the following I will briefly describe the sample organizations, the sampling procedure used, the sample size reached, and response rate obtained.

4.5.1.1 Organization 2

As described in 4.4 organization 2 is a large national corporation operating in the logistics sector in Germany. Upon the organization’s consent, I continued to conduct further data collection.

4.5.1.1.1 Sampling procedure

After conducting tests in a research community, I sent out the same questionnaire to various client communities and interest groups that were dealing with the organization.20 I also used an Internet platform to contact employees and suppliers of the firm and asked them to snowball the survey to other employees or suppliers that they deemed competent to answer.

For investors I used a similar approach contacting investment bankers, private bankers, and normal shareholders, who did not necessarily have to be invested in the organization.

4.5.1.1.2 Sample size

I managed to survey 876 stakeholders of organization 2, with the largest share of respondents being clients (N=512), followed by employees (N=153), suppliers (N=115), investors (N=40) and members of society (N=56) see Table 15.

20 More information on the communities and the organization cannot be revealed since anonymity has been promised.
In these circumstances it is difficult to calculate exact response rates, but in general it can be said that the employee response rate with direct contact ranged from 20-40%. Suppliers’ response rate tended to be lower, since not all people contacted actually had contact with the organization. Still I estimate the response rate to be between 10-15%. For investors the response rate was lower, hovering at 5-10%.

The respondents from society were difficult to contact since many stakeholders were multiple stakeholders of the organization, that is, employees and societal members. I tried to direct the survey to communities that were dealing with the organization from a societal perspective. The response rate can be estimated to be between 10-15%. It has to be noted that in this case financial rewards were offered per completed questionnaire, while for other stakeholder groups this was not necessary.

4.5.1.2 Organization 3

Organization 3 is the affiliate of an international consulting group. The group was operating internationally while the affiliate operated mostly in Austria, Germany and Switzerland.

4.5.1.2.1 Sampling procedure

After receiving approval for the survey I modified the questionnaire according to the needs of the organization, including the name as well as adding an additional stakeholder group, called alumni, since it was deemed a relevant stakeholder group for the organization. The survey was supported by the organization, which meant that an email was sent to the employees of one section of the organization encouraging their participation in the survey. The same happened with regard to alumni. Clients were approached by snowball sampling, through referral. Investors were approached via an Internet platform, and the sample included investment bankers, private bankers, normal investors as well as employees of the organization holding shares.
4.5.1.2.2 Sample size

A total of 404 responses were obtained. Most respondents were employees (N=117), and alumni (N=116), followed closely by investors (N=89), and clients (N=66). 16 suppliers and members of society also responded. (see also Table 16).

Table 16: Sample size organization 3

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Clients</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Alumni</th>
<th>Society</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>66</td>
<td>117</td>
<td>4</td>
<td>89</td>
<td>116</td>
<td>12</td>
<td>404</td>
</tr>
</tbody>
</table>

4.5.1.2.3 Response rates

Again exact response rates could not be calculated, but estimations for employees’ response rate are 40-50%, alumni response rate 20-30%, client response 20-30%, while investors’ response rate is estimated to be between 5-10%.

4.5.1.3 Organization 4

Organization 4 is a Swiss public university. After receiving approval to conduct the survey, I adapted the questionnaire to the organization, including layout, logo and a different stakeholder set up, including students, alumni and partnering businesses.

4.5.1.3.1 Sampling procedure

Organization 4 supported the data collection process with an official request to students and employees to fill in the survey posted on its internal Internet platform. Alumni were contacted via the alumni network and a different Internet platform. Partnering businesses were contacted through the official contacts of the university. Members of society were interviewed using a pencil-and paper-based questionnaire distributed at various local organizations. These organizations were encouraged with a financial incentive per completed survey.
4.5.1.3.2 Sample size

A total of 680 responses were obtained for organization 4: 254 students, 135 alumni, 110 employees, 99 members of society as well as 82 representatives of the partnering business communities responded (see Table 17).

4.5.1.3.3 Response rates

Response rates in this case can be estimated to be between 10-15% of students contacted, 15-20% for employees, 10-15% of alumni. The business partners’ response rate was 30-40%. For society members no response rate can be estimated.

Table 17: Sample size organization 4

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Employees</th>
<th>Alumni</th>
<th>Society</th>
<th>Businesses</th>
<th>Students</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>110</td>
<td>135</td>
<td>99</td>
<td>82</td>
<td>254</td>
<td>680</td>
</tr>
</tbody>
</table>

4.5.1.4 Sector overview

As stated before, organization 1 is a small- to medium-sized manufacturing company in the construction sector in Switzerland. Organization 2 is a very large company in the service sector, whose main focus is transportation in Germany. Organization 3 is the German, Swiss and Austrian unit of an international consulting firm, whereas Organization 4 is a Swiss public university. With this setup I intended to test whether the theoretical construct holds across organizations as well as across industry sectors, such as service and manufacturing, and across Swiss, German and Austrian cultures.

Table 18: Overview of sample organizations

<table>
<thead>
<tr>
<th>Organization</th>
<th>Sector</th>
<th>Industry</th>
<th>Country</th>
<th>Service Area</th>
<th>Size</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing</td>
<td>Construction</td>
<td>CH</td>
<td>Regional</td>
<td>Small/Medium</td>
<td>private</td>
</tr>
<tr>
<td>2</td>
<td>Service</td>
<td>Transport</td>
<td>D</td>
<td>National</td>
<td>Large</td>
<td>public listed</td>
</tr>
<tr>
<td>3</td>
<td>Service</td>
<td>Consulting</td>
<td>US/(D/A/CH)</td>
<td>International</td>
<td>Large</td>
<td>public listed</td>
</tr>
<tr>
<td>4</td>
<td>Service</td>
<td>University</td>
<td>CH</td>
<td>European</td>
<td>Medium/Large</td>
<td>state/county</td>
</tr>
</tbody>
</table>
4.5.1.5 Stakeholder variation

In all four cases I intended to survey relevant stakeholders of the organization. In most cases this included clients, employees, suppliers and investors. For some organizations alumni were a relevant stakeholder group. For the university, students and partnering businesses were important stakeholder groups as well. The response numbers of stakeholders varied across organizations (see Table 19 below). However my goal was to obtain more than 100 responses per stakeholder group across cases. According to Baer (2005) and Maruyama (1997) sample sizes of at least 100 are required for structural equation modeling and confirmatory analysis.

4.5.2 Descriptive Results

Overall 2053 responses were obtained. In total, customer responses added up to 601, employees responses to 423, suppliers responses to 141, investors to 133, alumni to 251, society to 168, businesses to 82 as well as students to 254 (also see Appendix A).

Table 19: Sample size per stakeholder and organization

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client/Customer</td>
<td>23</td>
<td>512</td>
<td>66</td>
<td>0</td>
<td>601</td>
</tr>
<tr>
<td>Employees</td>
<td>43</td>
<td>153</td>
<td>117</td>
<td>110</td>
<td>423</td>
</tr>
<tr>
<td>Suppliers</td>
<td>22</td>
<td>115</td>
<td>4</td>
<td>0</td>
<td>141</td>
</tr>
<tr>
<td>Investors</td>
<td>4</td>
<td>40</td>
<td>89</td>
<td>0</td>
<td>133</td>
</tr>
<tr>
<td>Alumni</td>
<td>0</td>
<td>0</td>
<td>116</td>
<td>135</td>
<td>251</td>
</tr>
<tr>
<td>Society</td>
<td>1</td>
<td>56</td>
<td>12</td>
<td>99</td>
<td>168</td>
</tr>
<tr>
<td>Businesses</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>Student/Client</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>254</td>
<td>254</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>93</td>
<td>876</td>
<td>404</td>
<td>680</td>
<td>2053</td>
</tr>
</tbody>
</table>

4.5.2.1 Gender

The gender mix of respondents was about 25% (522) female and 75% (1531) male, which is estimated to be a rough replication of gender representation within business organizations.  

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21 See http://www.eupreface.org/global_wombus.html
4.5.2.2 Age

The age group 18-30 represented the highest, with about 46% of the responses (N=941), followed by the age group of 31-45 with 40% of the responses (N=805). Twelve percent or (N=240) of the respondents were between 46 and 60 years old, while only 2 percent of respondents were older than 60 (N=54). A negligible percentage of respondents was younger than 18 (N=13). The sample is skewed to the 18-45 year olds, which is representative of the age groups present in the workforce. It is also likely that method effects contributed to these results. According to Zhang (2000), Internet surveys favor the overrepresentation of younger cohorts.

4.5.2.3 Contact duration

More than 40% (N=890) of respondents indicated that they had been in contact with the organization for 7 years or more; 25% (N=491) indicated a contact duration of 4 to 7 years and another 25% from 1 to 3 years (N=488). Only 10% indicated that their contact with the organization was less than 1 year (N=184). This indicates that most of the respondents had a long history with the organization about which they were interviewed.

4.5.2.4 Contact frequency

When asked about contact frequency most of the respondents, 52% or N=1074 indicated more than 100 interactions with the organization; 12% (N=258) respondents had 50-100 interactions, while 18% (N=357) reported 11-49 interactions; and, 18% (N=364) of the respondents reported from 1-10 interactions with the organization. Overall 64% had quite frequent interactions with the organization while only 18% had few interactions.

4.5.2.5 Conclusion

The presented sample provides a robust basis for further examination of construct validity. It will allow rigorous conclusions with regard to external validity and representativity. Cross-sectoral as well as cross-stakeholder analyses will be supported by sufficient amounts of data and hence a strong case can be made about the applicability of the trust measurement.

4.5.3 Limitations

Before I report results of further analyses, several limitations of the data collection process should be noted.
4.5.3.1 Sampling

The ‘snowball’ approach to sampling is an accepted sampling approach, but is exposed to high degrees of self-selection bias (Alreck and Settle, 2004). According to Alreck and Settle self-selection bias is a systematic effect on survey results because some respondents voluntarily participate while others decline or refuse, so that those with certain opinions or conditions are under-or overrepresented in the sample. I tried to counter this bias by increasing overall sample size and using different sources for respondent recruitment. However, in this research the goal is to establish the validity of a measurement, not its results. In that sense self-selection bias issues are less severe.

Another problem induced by ‘snowball’ sampling was the requirement to keep access unrestricted, thus enabling multiple responses. After careful deliberation I categorized this problem as a minor issue, and, checked for double response sets and for IP Number overuse of the survey; dubious cases were deleted.

4.5.3.2 Items

After the field test I reduced the number of items to avoid effects of fatigue. Thus, only four items were used per construct, which reduced the margin of error. Baer (2005) recommends three items per construct as minimum. In addition to survey length I had to compromise on order effects. Alreck and Settle (2004) advise to counter fatigue and routine effects by randomizing the order of questions. I decided to leave items in contextual order so that ‘mental set’ effects would not be too strong. Since there were only four questions per construct for latent construct measurement, routine and fatigue were considered a less prevalent problem, but I acknowledge that a pattern bias could evolve. I tried to cancel these effects out with a high sample size.

4.5.3.3 Stakeholder affiliation

Stakeholders are oftentimes multiple stakeholders, for example employees and clients or investors and members of society. This influences the respondent’s view of the organization. Results of stakeholder groups need to be seen in this light. I checked for multiple stakeholder affiliation (see appendix A) and about 28% of the respondents self-reported multiple stakeholder affiliation.

I also combined the self-reported ‘partners’ of organization 2 with the self-reported ‘suppliers’ of organization 2, since they seemed to be conceptually very similar. For
organization 3 I combined self-reported ‘partners’ with ‘investors’ since, in the context of a consulting group, partners are owners of the organization.

4.5.3.4 Missing data

Missing data are often a problem in survey research (Hair et al., 1998). In earlier times listwise deletion of incomplete data sets was a routine approach (Hair et al., 1998; Baer, 2005). However, data misrepresentation has been the consequence of the listwise deletion process (Baer, 2005). The current literature proposes several imputation approaches to missing data (Maruyama, 1997). For my data I used the EM Imputation approach offered by PRELIS/ LISREL 8. A comparison of data sets using listwise deletion and EM imputation revealed negligible differences. Using EM imputation, however I could use many more response sets. With due referral to these limitations, I will now present the further results of the data analysis process.

4.5.4 Analysis of the large scale study

Following the same analytical path as employed for the pilot test, I calculated correlations to verify convergent validity and used Cronbach alphas to check reliability for the scales. I tested predictive validity using discriminatory analysis and then explored convergent and discriminant validity of the constructs using exploratory factor analysis.

4.5.4.1 Correlations

As expected the correlations of the dimensional items are high, above .5 (see Table 20). These correlations are even higher than the ones in the field test, even though more data have been collected. This is a strong indicator for convergent validity.
4.5.4.2 Reliability

The reliability of the dimensional items is also very high (> .8), which demonstrates strong support for the dimensions proposed. All Cronbach’s alpha values are well above the critical value of 0.7 (Nunnally, 1967), indicating good reliability.

Table 20: Correlations large scale study

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Pearson R</th>
<th>Kendall tau-b</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>minimum</td>
<td>maximum</td>
</tr>
<tr>
<td>Competence</td>
<td>0.568</td>
<td>0.773</td>
</tr>
<tr>
<td>Reliability</td>
<td>0.51</td>
<td>0.748</td>
</tr>
<tr>
<td>Integrity</td>
<td>0.638</td>
<td>0.68</td>
</tr>
<tr>
<td>Transparency</td>
<td>0.557</td>
<td>0.729</td>
</tr>
<tr>
<td>Benevolence</td>
<td>0.567</td>
<td>0.741</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.671</td>
<td>0.791</td>
</tr>
<tr>
<td>Identification</td>
<td>0.747</td>
<td>0.832</td>
</tr>
</tbody>
</table>

N=2053

4.5.4.3 Discriminatory analysis

To test predictive validity I again created two groups: a low-trust group and a high-trust group. These were built according to the responses to item (f38) ‘I trust the organization’ (Trust) and (f7) ‘The organization is trustworthy’ (Trustworthiness).

The results (see Table 22) demonstrate the strong predictive power of the dimensions, meaning that each dimension predicts the answer to trust and trustworthiness of an
organization with a high degree of accuracy. Results in the large-scale study are even better than in the pilot test and both notions, trust and trustworthiness, seem equally well predicted. This result supports the claim of Mayer and Davis (1999) that trust and trustworthiness are very highly correlated notions.

Table 22: Predictive validity - large scale study

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Trust</th>
<th>Trustworthiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
<td>85.60%</td>
<td>88.60%</td>
</tr>
<tr>
<td>Reliability</td>
<td>87.60%</td>
<td>88.50%</td>
</tr>
<tr>
<td>Integrity</td>
<td>87.60%</td>
<td>88.60%</td>
</tr>
<tr>
<td>Transparency</td>
<td>82.80%</td>
<td>84.60%</td>
</tr>
<tr>
<td>Benevolence</td>
<td>88.40%</td>
<td>86.60%</td>
</tr>
<tr>
<td>Reputation</td>
<td>88.40%</td>
<td>87.70%</td>
</tr>
<tr>
<td>Identification</td>
<td>90.40%</td>
<td>85.70%</td>
</tr>
<tr>
<td>ALL</td>
<td>94.00%</td>
<td>92.20%</td>
</tr>
</tbody>
</table>

4.5.4.4 Exploratory factor analysis

Using exploratory factor analysis (EFA) I again wish to explore whether there is convergent and discriminatory validity in my data supporting the assumed dimensions of trust. With the greater sample size I test the validity of my scales using EFA based on the Maximum Likelihood Extraction (MLE) method combined with a promax rotation. This is considered an appropriate method when there is reason to expect the factors are correlated (Nunnally and Bernstein, 1994; Koufaris and Hampton-Sosa, 2004). Following Baer (2005) a test for multivariate normality was conducted prior to the analysis, which yielded positive results (skewness and kurtosis of all items below 1).22

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22 Another issue often raised is the use of ordinal categorical data in advanced analyses for continuous data. Following Chou and Bentler (1995) observations here are treated as imprecise observations on continuous normally distributed variables. Both conditions, multivariate normality and the number of categories being at least five, are met.
Table 23: Exploratory factor analysis - large scale study

<table>
<thead>
<tr>
<th>Pattern Matrix(a)</th>
<th>Item</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item</td>
<td>The organization</td>
<td>REP</td>
</tr>
<tr>
<td>133</td>
<td>people I know speak highly of the organization</td>
<td>1.07</td>
</tr>
<tr>
<td>134</td>
<td>Stakeholders are positive towards the organization</td>
<td>0.84</td>
</tr>
<tr>
<td>137</td>
<td>is a role model</td>
<td>0.33</td>
</tr>
<tr>
<td>138</td>
<td>says if something goes wrong</td>
<td>0.85</td>
</tr>
<tr>
<td>139</td>
<td>is transparent</td>
<td>0.82</td>
</tr>
<tr>
<td>140</td>
<td>openly shares all relevant information</td>
<td>0.75</td>
</tr>
<tr>
<td>141</td>
<td>explains its decisions</td>
<td>0.44</td>
</tr>
<tr>
<td>142</td>
<td>I feel connected with the organization</td>
<td>0.68</td>
</tr>
<tr>
<td>143</td>
<td>my personal values match the values of the organization</td>
<td>0.82</td>
</tr>
<tr>
<td>144</td>
<td>has high moral standards</td>
<td>1.05</td>
</tr>
<tr>
<td>145</td>
<td>does not try to deceive</td>
<td>0.77</td>
</tr>
<tr>
<td>146</td>
<td>treats its stakeholders with respect</td>
<td>0.48</td>
</tr>
<tr>
<td>147</td>
<td>does not abuse stakeholders</td>
<td>0.46</td>
</tr>
<tr>
<td>148</td>
<td>listens to my needs</td>
<td>1.03</td>
</tr>
<tr>
<td>149</td>
<td>is fair</td>
<td>0.74</td>
</tr>
<tr>
<td>150</td>
<td>is consistent when dealing with stakeholders</td>
<td>0.53</td>
</tr>
<tr>
<td>151</td>
<td>generally has high standards</td>
<td>0.94</td>
</tr>
<tr>
<td>152</td>
<td>is very competent in its area</td>
<td>0.73</td>
</tr>
<tr>
<td>153</td>
<td>communicates regularly important events and decisions</td>
<td>0.95</td>
</tr>
<tr>
<td>154</td>
<td>is reliable</td>
<td>0.43</td>
</tr>
<tr>
<td>155</td>
<td>can successfully adapt to changing demands</td>
<td>0.84</td>
</tr>
<tr>
<td>156</td>
<td>is able to reach self-set goals</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Rotation converged in 8 iterations.

When submerging the data to the exploratory factor analysis eight factors instead of the anticipated seven factors emerge. Competence is split into two factors that can be interpreted as managerial aspects of competence and technical aspects of competence.

Managerial competence seems to be measured by items f8 and f9 (see Appendix B):
‘The organization can successfully adapt to changing conditions’, and
‘The organization is able the reach self-set goals’.

Technical competence is measured by items f10 and f11:
‘The organization is very competent in its area,’ and
‘The organization has generally high standards.’

This additional split provides valuable information regarding to the properties of the measurement, but reveals the problem of two double-item constructs, which, according to Baer (2005), can sometimes cause instability.

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23 It should again be noted that these questions were originally asked in German (see Appendix B).
For the scales to show both convergent and discriminatory validity, each item should load highest on its related factor and have very low loadings on unrelated factors. Also, the highest factor loadings for each item should be significantly above a threshold level determined by the number of variables, factors, and data points in the sample. All but three items in Table 23 load on their related factors with factor loadings over 0.40 and load on other factors with small loadings, always under 0.40. One item (f12) does not load high on any dimension. One item (f26) does load on two factors almost equally strongly, namely benevolence and integrity. Another item (f28) loads only weakly on one dimension. These items are candidates for deletion. When conducting the analysis without the three items the scales show strong convergent and discriminant validity (see Appendix A).

4.5.4.5 Conclusion

After conducting several reliability and validity tests, construct validity of the trust measurement seems very robust. All analyses indicate good measurement properties and reveal potential conceptual changes. So far three items are candidates for deletion and one dimension, competence, seems to measure two different aspects, namely, managerial and technical competence.
4.5.5 Reflective trust model measurement - confirmatory factor analysis (CFA)

In the following I will evaluate construct validity by using confirmatory factor analysis (CFA). I will briefly outline what confirmatory factor analysis is and then present results of the first-order and second-order factor analyses conducted.

4.5.5.1 Overview

Confirmatory Factor Analysis (CFA) is commonly viewed as a more rigorous method to test construct validity (Hair et al., 1998). In exploratory factor analysis, the model is arbitrary: all variables load on all factors. Confirmatory factor analysis however represents a clear hypothesis about the factor structure. A model is imposed a priori on the data, and fits of the models are evaluated based on covariance structures. Fit indices provide insight into the quality of the model and modification indices indicate where misspecifications can occur. Model specification is usually guided by a combination of theory and empirical results from previous research. In my case the theoretical assumptions about the factors of trustworthiness plus the results of exploratory factor analysis guide my model specification. According to Hox and Bechger (1998) the purpose of CFA is twofold: First, it aims to obtain estimates of the parameters of the model, i.e. the factor loadings, the variances and covariances of the factor, and the residual error variances of the observed variables. The second purpose is to assess the fit of the model, i.e. to assess whether the model itself provides a good fit to the data. Hence CFA allows one to test rigorously for convergent and discriminant validity of the model.

In the following CFA I will first impose each trust dimension on the data and then test two models on my data set:
   1) an eight-factor model, which includes all dimensions proposed by EFA, and
   2) a six-factor model which does not include the dimensions of reputation and identification.

Finally, I will conduct analyses across organizations and across stakeholders, to establish representativity.

For the confirmatory factor analysis I use AMOS 5. AMOS 5 is based on structural equation models using covariance matrices. The software was selected because of its ease of use and

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because it handles second order factor models much better than for example LISREL (see Baer 2005).

4.5.5.2 Procedure

As depicted above I will first test the constructs that emerged in EFA. These constructs constitute first-order constructs, which will be the basis for further testing. In the following part I will check a second-order model, indicated by theory, which suggests that the constructs benevolence, integrity, competence, reliability, transparency, reputation and identification are indeed part of a larger construct called trust (eight-factor model). Based on theoretical and empirical considerations I will also test a less complex model not including the dimensions reputation and identification (six-factor model). I conclude my evaluation with a test across stakeholders and organizations to establish cross-case and cross-stakeholder validity.

4.5.5.2.1 CFA first order constructs

In the first part of the analysis I submitted items for each construct separately. I checked fit statistics and factor loadings.

Competence
The four items measuring competence seem to be excellent indicators of the construct competence. The correlations (factor loadings within the construct) vary from .76 to .86. Factor loadings above .8 are deemed to be very good indicators. Factor loadings above .7 are estimated to be acceptable measures (Hair 1998, p.623).

The model reports a CFI of .923. According to Hox and Bechger (1998), usually a value of at least 0.90 is required to accept a model, while a value of at least 0.95 is required to judge the model fit as ‘good’.

To increase the fit of a model modification indices are used. Modification indices indicate which parameter of a model might not be significant. Researchers often use this information to conduct a sequence of model modifications. At each step a parameter is freed to produce the greatest improvement in fit, and this process is continued until an adequate fit is reached. Generally, the advice is to apply modifications only when there is a theoretical justification for them (Hox and Bechger, 1998).

In the model for competence the modification indices show that an additional covariance between f8 and f9 would increase the model fit. We thus seem to detect a similar split in the competence dimension as in the prior results of EFA. There seems to be a management and

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25 For an overview and evaluation of a large number of fit indices, see Gerbing and Anderson (1993).
a technical component of competence. Once we free the covariance of these items the fit becomes perfect, but degrees of freedom are used up. In a larger context, with more variables involved and therefore a higher number of degrees of freedom, a test of the two constructs will be conducted.

Reliability
In general the items for the construct reliability are acceptable indicators. The correlations (factor loadings within the construct) vary from .66 (f13) to .90. The item f13 might be considered for deletion since the loading is below .7. The other indicators strongly correlate and therefore seem to provide a reliable measure for the construct. The model as such has a very good fit (CFI: .992; see Table 24). This result seems to underscore the findings of EFA.

Table 24: Confirmatory factor analysis – first-order constructs

<table>
<thead>
<tr>
<th>First Order Constructs</th>
<th>Factor Loadings</th>
<th>Model Fit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum</td>
<td>Maximum</td>
</tr>
<tr>
<td>Competence</td>
<td>0.76</td>
<td>0.86</td>
</tr>
<tr>
<td>Reliability</td>
<td>0.66</td>
<td>0.71</td>
</tr>
<tr>
<td>Integrity</td>
<td>0.78</td>
<td>0.83</td>
</tr>
<tr>
<td>Transparency</td>
<td>0.73</td>
<td>0.86</td>
</tr>
<tr>
<td>Benevolence</td>
<td>0.74</td>
<td>0.87</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.8</td>
<td>0.88</td>
</tr>
<tr>
<td>Identification</td>
<td>0.85</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Integrity
The three items measuring integrity load between .78 and .83, which means that these indicators are good indicators. The construct for integrity has a perfect fit (DF=0).

Transparency
The four items are fine indicators of the construct transparency. The factor loadings vary between .73 and .86. The model has a very good fit (CFI: .994; see Table 24), and therefore confirms results of EFA.

Benevolence
The four items load at the high end of the scale (between .74 and .87) with the latent variable benevolence and can therefore be considered good indicators of the construct. The model also has a very good fit (CFI: .964; see Table 24).
Reputation
The results of CFA indicate that reputation, measured by the four items (f27, f28, f33, f34) is a strong construct (CFI=.979). The items load highly with the construct, between .8 and .88.

Identification
The three items measuring identification load strongly on the construct of identification (between .85 and .9). The fit is perfect (DF=0). This again confirms the results of the exploratory factor analysis.

4.5.5.2.2 Conclusion
In general the results of EFA are strongly supported by CFA for the individual constructs. The split of the competence dimension is also indicated by CFA. Items that were candidates for deletion in EFA showed a better performance here. In general CFA is viewed as a better analysis model (Maruyama, 1997), and I am therefore inclined to continue using these items.

4.5.5.3 Reflective second-order construct

I will continue now with a test of the composite construct ‘trust’ and check for discriminant and convergent validity of the trust dimensions. In order to do this I first test the conditions for a second-order model and then conduct a test of trust as a second-order construct using CFA.

4.5.5.3.1 Requirements for second-order model

According to Baer (2005) the first requirements for second-order models is that they are identified by at least three first-order constructs. In this case seven to eight first-order constructs would guarantee model identification, so the first requirement is met. The second requirement is that these concepts are highly correlated among each other, since only then can the theoretical assumption that these concepts belong together in a higher order concept be sustained empirically (Baer, 2005; Kline, 2005). The eight-factor model has a low but still acceptable fit (CFI: .919). The correlations between reputation and identification and the other constructs are lower, indicating that the second-order construct is mainly based on six dimensions (competence, reliability, benevolence, integrity and transparency).
The six-factor composite model fits the data very well (CFI: .967) and has high correlations between .67 and .93 (see Appendix A). This is an indication that a stable second-order construct exists. Based on the theory presented in Chapter 3 I argue that this higher concept is trust.

4.5.5.3.2 Second order model (CFA)

In the following I will present the results of the two reflective second-order models (6 factor vs. 8 factor model). The models tested here are called reflective since it is assumed that trust is a latent, unobservable construct that is reflected by the first-order constructs (Burke Jarvis, MacKenzie and Podsakoff, 2003). In the end I will also portray the results regarding the different organizations as well as the results for the different stakeholder groups.

Table 25: Confirmatory factor analysis – second-order model

<table>
<thead>
<tr>
<th>Second order construct</th>
<th>Covariances added</th>
<th>Items deleted</th>
<th>CFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Factor model</td>
<td>-Benevolence and Integrity</td>
<td>f13</td>
<td>0.963</td>
</tr>
<tr>
<td></td>
<td>-Man. and Technical competency</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Reliability and Managerial Competence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Factor model</td>
<td>Reputation and Managerial Competence</td>
<td>f28</td>
<td>0.951</td>
</tr>
</tbody>
</table>

Model fit
At first I tested the six-factor model since correlations among the six dimensions seemed higher, promising a better reflective model fit. I submitted the items, the first order constructs and 'trust' as the second order construct to the test (see Appendix A for model). The modification indices indicated that three covariances should be added to increase overall model fit. The additional covariances proposed related concepts of: benevolence and integrity, reliability and managerial competence and technical and managerial competence. In the context of CFA additional covariances are a sign of weak levels of discriminant validity. I therefore tested separate models where these factors were combined, but models with combined competence dimension, a combined benevolence and integrity dimension as well as a combined reliability and competence dimension all yielded worse fit statistics. Thus, upon theoretical and empirical evaluation I left the constructs separate and added the additional covariances. In addition to adding the covariances, I also detected a low loading item (f13), which I deleted for further analysis. The fit of the final six factor model was very high, yielding a CFI of .963. This finding demonstrates very high construct validity. Even with the additional covariances it can be argued that convergent and discriminant validity are high.
When testing the eight factor model I had to include another covariance, between reputation and managerial competence. This covariance I find harder to justify theoretically, but a case could be made that there is a distinct contribution of managerial ability to the overall reputation of an organization. In addition, I had to delete item f28, which had already shown less stability during EFA. The fit of the model is also quite good with a CFI of .951. This result demonstrates strong construct validity as well.

**Factor loadings**

The loadings of the second order constructs are both very similar, indicating that all of these first-order constructs are good manifestations of the notion of trust. *Reliability* and *integrity* are the highest loading factors across the sample of all respondents (see Table 26). *Benevolence* and *transparency* follow whereas both *competency* dimensions are at the end. In the eight factor model *reputation* and *identification* are the least predictive together with managerial competence. However, all of these first order constructs are highly statistically significant.

Table 26: Confirmatory factor analysis - factor loadings

<table>
<thead>
<tr>
<th>Six-Factor Model</th>
<th>Eight-Factor Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL CFI: 963</td>
<td>ALL CFI: .951</td>
</tr>
<tr>
<td>Reliability 0.99</td>
<td>Reliability 0.977</td>
</tr>
<tr>
<td>Integrity 0.94</td>
<td>Integrity 0.931</td>
</tr>
<tr>
<td>Benevolence 0.88</td>
<td>Benevolence 0.885</td>
</tr>
<tr>
<td>Transparency 0.87</td>
<td>Transparency 0.856</td>
</tr>
<tr>
<td>Tech. Comp. 0.83</td>
<td>Technical Comp. 0.842</td>
</tr>
<tr>
<td>Manag. Comp. 0.81</td>
<td>Rep. 0.84</td>
</tr>
<tr>
<td></td>
<td>Manag. Comp. 0.835</td>
</tr>
<tr>
<td></td>
<td>Identification 0.828</td>
</tr>
</tbody>
</table>

Hence both models show very good construct validity. It can be argued that the six-factor model is the more parsimonious and better fitting overall model. However the eight-factor model could add explanatory power to the construct.

4.5.5.3.3  Conclusion

In conclusion the Confirmatory Factor Analysis corroborates the findings of EFA. The six-factor model seems very stable. The model proves convergent and discriminatory validity and hence these theoretically derived constructs all seem relevant as dimensions of trust.
4.5.5.4 Model test across organizations and stakeholder groups

Since I am interested how representative my findings are, I tested for external validity by analyzing results for each organization and for each stakeholder group.

4.5.5.4.1 Organizations

Following Byrne (2001) I conducted a multiple group analysis. The results indicated that differences in the measurements were statistically significant. This means that the measurement model is not invariant across organizations. This was not surprising since organizations were indeed rather different. However, even as the measurement model can vary, properties of the trust measurement construct can still hold valid across organizations. I thus analyzed fit values and factor loadings of the measurement model across organizations.

**Model fits**
The fits varied across organizations but the model still fit acceptably well across organizations.\(^{26}\)

Table 27: Model fits

<table>
<thead>
<tr>
<th>Organization</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFI</td>
<td>0.951</td>
<td>0.944</td>
<td>0.939</td>
</tr>
</tbody>
</table>

**Factor loadings (see appendix A)**

For organization 2 the most important dimensions of trust are reliability and integrity, both with a correlation of .97. Benevolence and integrity follow with loadings of .87 and .85. The dimension of technical competence is loading with .79 and managerial competence with .71. The loadings of the competence dimensions are highly statistically significant and meet the critical value of .7 (Hox and Bechger, 1998).

Similar patterns emerge for organization 3. However reliability seems by far the most relevant of these dimensions with a correlation of 1. Benevolence and integrity follow, both with a loading of .88. Managerial competence and transparency load with .85 whereas technical competence has a loading of .78 (see Appendix A).

\(^{26}\) Organization 1 was not tested since the number of respondents was below 100.
A similar pattern emerges for organization 4. Reliability and integrity top the list with respective factor loadings of .95 and .93. Transparency in this case ranks higher among the trust dimensions and loads with .82. Benevolence loads with .78. The two competence dimensions have the lowest loadings with technical competence at .65 and managerial competence at .63. These loadings are below the cutoff point of .7, meaning that the competence dimension may not be that relevant for trust in universities.

Conclusion
Since fit values and factor loadings in general hold stable across organizations, it is safe to assume that the measurement model possesses external validity. The model holds acceptably well across organizations, across sectors, and across ownership structures. This means that whether the organization is a public institution such as the university or a large international service firm, the same constructs are manifestations of organizational trust.

4.5.5.4.2 Stakeholder comparisons

A comparison across stakeholder groups reveals similar patterns. The fit of the model is very good for clients and employees. A test for multi-group invariance indicates that the model is basically the same for both groups. For the other stakeholder groups the multiple group analysis indicates statistically significant differences. However, the fit of the model is acceptable across all stakeholder groups (see Table 28).27

Table 28: Stakeholder model fit

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Clients</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Alumni</th>
<th>Society</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFI:</td>
<td>0.96</td>
<td>0.96</td>
<td>0.93</td>
<td>0.91</td>
<td>0.93</td>
<td>0.94</td>
<td>0.91</td>
</tr>
</tbody>
</table>

The factor loadings show similar patterns (see Appendix A). Reliability and integrity are the highest loading dimensions of stakeholder trust.

For clients reliability is by far the highest loading dimension (1.0). Integrity and benevolence follow with loadings of .95 and .92. Transparency, managerial and technical competence load with .86/.81/.80 (see Appendix A).

For employees reliability is also the highest loading dimension (.97), while managerial and technical competence load relatively low (.69). Integrity and transparency load relatively high, with .89 and .88, while benevolence loads with about .76.

27 The stakeholder group society includes business partners of organization 4.
For suppliers the highest loading dimensions are reliability (1.0) and integrity (.90). The lowest loading dimension is technical competence with .74. Benevolence, transparency and managerial competence load with .87/.83/.82, respectively.

In the case of investors the highest loadings are again reliability (.96) and integrity (.94). Managerial competence loads the lowest (.76). Transparency, benevolence and technical competence load with .89/.85/.80, respectively. The low loadings of managerial competence are surprising.

With slight changes in the order and lower factor loadings for students in the dimensions of competence, the pattern is similar across stakeholder groups (see Appendix A).

This provides evidence that even though the model is not perfectly invariant across stakeholder groups, the pattern remains very much the same. The fit indices also support the acceptance of the proposed model as a general model across organizations and stakeholders.

4.5.5.5 Conclusion

Findings of CFA suggest that the different dimensions of trust posited theoretically are also empirically valid. Six or eight factors can be used to measure trust. The measurement model remains stable across organizations, stakeholders, sectors, property structures, and cultures. This result is key to the general application of a trust measurement model.
4.5.6 Formative Trust Model Measurement

According to Hair, Anderson et al. (1998), confirmatory factor analysis is a commonly employed tool to establish measurement scales. In recent discussions, however, the interpretative value of results has been questioned (Burke Jarvis et al., 2003). In the following, I will outline the differences between reflective and formative models, describe the model setup, present the findings across organizations and stakeholder groups, and discuss the implications.

4.5.6.1 Differences between reflective and formative model

In CFA the measurement of organizational trust is based on theoretical assumptions. CFA assumes that trust is a second-order construct, reflected by the first-order constructs, which, in turn, are reflected by the observed items (Type I model).

![Reflective and formative second-order models](image)

Figure 16: Reflective and formative second-order models (Burke Jarvis, MacKenzie et al. 2003)

The CFA results strongly support that the proposed dimensions reflect a higher order concept, but it could also be argued that this construct is, for instance, a general, positive view of an organization, rather than trust. In this case a formative construct test would be applicable. In a formative construct (Type II Model) trust dimensions would not reflect but rather would form or cause trust. Burke Jarvis, MacKenzie et al. (2003) list several criteria to determine whether a construct should be tested as reflective or formative (see Appendix A). Scholars in the field are still undecided as to which category should apply to
organizational trust. Williams (2005), Ellis (2005) and Baer (2005) argue for the reflective model, while Malhotra (2005) and Winship (2005) favor the formative model. Mishra (2005) states that the concept of trust is sufficiently complex to lend arguments to both stances. The methodological problem of a formative model is the strong multi-collinearity of first-order constructs, which normally supports a ‘reflective’ view. However, the interpretive advantage of a formative model is that the second-order construct is in fact measured and not theoretically assigned. In addition, the formative model can be viewed as a test for concurrent validity and supports the detection of causes for organizational trust. These findings can have practical impact for everyone interested in building trust. Since I cannot resolve the scholarly dispute about the nature of the model here, I will present the results of the formative analysis as well and discuss its findings.

4.5.6.2 Procedure

In contrast to the reflective model (CFA), the second-order construct is now measured as the combination of two items (f7/f38). These items measure self-reported levels of trust in the organization:

- f7: the organization is trustworthy, and
- f38: I trust the organization

Cronbach’s alpha for the combined construct was .80, indicating good reliability.

I conducted the analysis using the framework of Structural Equation Modeling (SEM). I set up a second-order formative model (Burke Jarvis et al., 2003) which included all eight dimensions of organizational trust. I then stepwise deleted the insignificant drivers until a level of significance was reached and the general model fit was acceptable (CFI >.95). This approach was used for the aggregate data set as well as for the specific stakeholder data sets independently. For further confirmation of the results per organization I used simple regression analysis, since sample size was too small for SEM. A combination of the two items on trust and trustworthiness was used as the dependent variable. Factor variables were created for the trust dimensions.

The descriptives and correlations are exhibited in Table 29.

Table 29: Descriptive statistics and correlations for study variables

<table>
<thead>
<tr>
<th></th>
<th>Descriptive Statistics</th>
<th>Correlations for Study Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>Transparency</td>
<td>3.03</td>
<td>0.90</td>
</tr>
<tr>
<td>Tech. Comp.</td>
<td>3.90</td>
<td>0.94</td>
</tr>
<tr>
<td>Man. Comp.</td>
<td>3.47</td>
<td>1.12</td>
</tr>
<tr>
<td>Identification</td>
<td>3.31</td>
<td>1.17</td>
</tr>
<tr>
<td>Reputation</td>
<td>3.30</td>
<td>0.98</td>
</tr>
<tr>
<td>Reliability</td>
<td>3.42</td>
<td>1.01</td>
</tr>
<tr>
<td>Integrity</td>
<td>3.51</td>
<td>0.95</td>
</tr>
<tr>
<td>Benevolence</td>
<td>3.53</td>
<td>1.05</td>
</tr>
<tr>
<td>Trust</td>
<td>3.53</td>
<td>1.05</td>
</tr>
</tbody>
</table>

n=2053. Alpha coefficients are on the diagonal in parentheses.
4.5.6.3 Overall results

As indicated, I used two ways to identify the relevant antecedents of organizational trust, the SEM framework and the basic regression framework. The results are very similar but occasionally there was a slight divergence due to the additional restrictions SEM imposes on model fit.

Analyzing all respondents (n=2051), the statistically significant antecedents (p-level <.05) of organizational trust are integrity, identification, reliability, technical competence, benevolence, reputation and transparency. Transparency, though, seems to be negatively correlated with organizational trust. Managerial competence does not play a role. The model fit is very good as the CFI exceeds .95.

When conducting this analysis in a simple regression framework, reliability, integrity, identification, technical competence, reputation, benevolence and managerial competence are all statistically significant at p<.05. Transparency does not seem to be a significant predictor of organizational trust across all stakeholders, while managerial competence is. The adjusted R-Square in this scenario is .765 (see Appendix A)

Table 30: Overall fit results

<table>
<thead>
<tr>
<th>ALL drivers (p&lt;.05)</th>
<th>level</th>
<th>CFI</th>
<th>drivers (p&lt;.01)</th>
<th>level</th>
<th>CFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td>0.357</td>
<td>0.95</td>
<td>Integrity</td>
<td>0.411</td>
<td>0.957</td>
</tr>
<tr>
<td>Identification</td>
<td>0.297</td>
<td>Identification</td>
<td>0.325</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td>0.174</td>
<td>Reliability</td>
<td>0.176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical Competence</td>
<td>0.154</td>
<td>Technical Competence</td>
<td>0.169</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benevolence</td>
<td>0.122</td>
<td>Benefit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td>0.059</td>
<td>Transparency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transparency</td>
<td>-0.086</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.5.6.4 Results across organizations

When looking at the four different organizations studied, it becomes apparent that transparency, especially with regard to organization 2, is negatively correlated with trust.

A common antecedent to all organizations is identification. Reliability, benevolence and integrity are also often drivers of organizational trust. Managerial and technical competence play less of a role. Reputation plays even less of a role whereas transparency never plays a role. Different dimensions seem significant for different organizations, which contradicts the findings of the reflective model.
Results across stakeholders

When looking at the different stakeholders it is possible to detect that identification and integrity are the main antecedents of trust across all groups. Again, except for transparency, all dimensions seem relevant.

Drivers of client trust are integrity, identification and technical competence. Integrity seems to be the most important driver. For employees the most relevant driver seems to be identification with the organization, followed by reliability and benevolence. For suppliers managerial competence and integrity are the most important factors, while identification also plays a role.

For investors technical competence and identification along with benevolence are crucial. This result is quite interesting and can be explained by a number of employees who also had invested in the organization. Reputation plays a role as well for investors, which makes sense in light of using all information at hand, which is not necessarily based on personal experience.

<table>
<thead>
<tr>
<th>Organization</th>
<th>drivers (p&lt;.05)</th>
<th>level</th>
<th>CFI</th>
<th>drivers (p&lt;.01)</th>
<th>level</th>
<th>CFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization 1</td>
<td>Man. Competence</td>
<td>0.578</td>
<td>0.929</td>
<td>Man. Competence</td>
<td>0.668</td>
<td>0.957</td>
</tr>
<tr>
<td></td>
<td>Identification</td>
<td>0.414</td>
<td></td>
<td>Identification</td>
<td>0.532</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Benevolence</td>
<td>0.295</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization 2</td>
<td>Reliability</td>
<td>0.531</td>
<td>0.937</td>
<td>Reliability</td>
<td>0.398</td>
<td>0.937</td>
</tr>
<tr>
<td></td>
<td>Integrity</td>
<td>0.341</td>
<td></td>
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<td>0.341</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Identification</td>
<td>0.314</td>
<td></td>
<td>Identification</td>
<td>0.305</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transparency</td>
<td>-0.174</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization 3</td>
<td>Identification</td>
<td>0.385</td>
<td>0.961</td>
<td>Identification</td>
<td>0.435</td>
<td>0.968</td>
</tr>
<tr>
<td></td>
<td>Tech Competence</td>
<td>0.316</td>
<td></td>
<td>Benevolence</td>
<td>0.369</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Benevolence</td>
<td>0.251</td>
<td></td>
<td>Tech Competence</td>
<td>0.345</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Integrity</td>
<td>0.198</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization 4</td>
<td>Benevolence</td>
<td>0.348</td>
<td>0.948</td>
<td>Benevolence</td>
<td>0.348</td>
<td>0.948</td>
</tr>
<tr>
<td></td>
<td>Identification</td>
<td>0.294</td>
<td></td>
<td>Identification</td>
<td>0.294</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reputation</td>
<td>0.259</td>
<td></td>
<td>Reputation</td>
<td>0.259</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reliability</td>
<td>0.238</td>
<td></td>
<td>Reliability</td>
<td>0.238</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Covariance</td>
<td></td>
<td></td>
<td>Covariance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 31: Fit results across organizations
For alumni integrity, identification, technical competence and reputation are the main drivers. For society integrity and managerial competence are relevant. It is interesting to note that reputation is less relevant here, whereas it could be argued that the information about integrity and managerial competence are based on second-hand knowledge.

Students value reliability and benevolence and base their trust on identification with an organization as well. For a more detailed discussion of the relevance of the different antecedents of organizational trust I refer to Pirson and Malhotra (2006).

### 4.5.6.6 Conclusion

The analysis of the formative model shows that, except for transparency, all dimensions are relevant ‘causes’ of trust. Hence concurrent validity is strong. The results of the formative model, however, put results of the reflective model into perspective. Not all dimensions of trust seem equally important for every organization and every stakeholder group. A refined trust measurement might take these facts into account.
The minor role transparency plays could be explained by multi-collinearity. In fact, evidence from the interview research shows that transparency is indeed relevant for stakeholders. Hence the results of the formative model need to be interpreted with some caution.

4.5.7 Excursus: Relevance of trust for cooperation

After demonstrating which dimensions of trust are relevant for organizational trust I want to briefly comment on the relevance of trust for cooperation. I conducted an additional analysis to determine whether the hypothesized positive effects of trust on cooperation were empirically grounded. As a measure for cooperation I used self-reported recommendation behaviors across stakeholder groups, based on four items (f40/f41/f42/f43) included in the survey.

The correlations of both the reflected trust levels and the formative trust levels, and recommendation behaviors were very high (.86/.9). These findings empirically demonstrate the high relevance of organizational trust for cooperative behavior among all stakeholder groups.

4.6 Conclusion

The important finding of this chapter is that trust is measurable (RQ3/4). This finding is supported by the literature, qualitative findings and by the elaborate quantitative analysis conducted. Even though there are specificities particular to each organization, in general, all dimensions should be part of a trust measurement model. A more parsimonious approach might include four to five dimensions, renounce the split of the competency dimension and exclude reputation, identification and transparency. However, the dimension of identification seems to explain trust perceptions especially well according to the formative model. Including all eight dimensions, while more tedious, would add explanatory value to a trust measurement. Empirical evidence supports both approaches and hence the decision as to which dimensions to include in a trust monitor remains practical.
5  Aspects of building trust
After determining the dimensions of trust relevant to trust measurement, I now wish to turn to the question of how trust can be built (RQ5). The trust gap shows that there is great need for organizations to maintain and build trust with their respective stakeholders. In order to examine how trust is built or destroyed, I interviewed stakeholders of different organizations to gather their insights and experiences. In addition to the interviews, I extensively researched the current literature and identified leverage points for trust building in organizations.
In this section, I am outlining methodological aspects of the qualitative research approach and present findings on factors that consistently hamper the building of trust. I will categorize these findings along the dimensions that influence trust most, namely, competence, reliability, integrity, transparency, benevolence, and identification. Inferring from these hazards to trust, I will then present potential trust enablers that I identified within these dimensions.
Given the general “do’s” and “don’ts” of organizational trust, I will outline the three leverage points where organizations create and build or lose trust: organizational leadership, organizational processes, and organizational culture.

5.1  Method and sample
For the following section I used a combined approach of literature analysis and interview research. Since my research is applied, I will distill the main findings and present them in a framework that suits organizations.

5.1.1  Method
According to Drever (1995), interviewing is one of the most common methods used when exploring or corroborating findings in social research. Following Wengraf (2001) I used semi-structured interviews to explore the reasons and causes for trust decay and trust increases. Semi-structured interviews follow a general structure set up by the interviewer who decides in advance the ground to be covered and the main questions to be asked (see outline in Appendix C). The detailed structure is left to be worked out during the interview, and the person being interviewed has a fair degree of freedom in deciding what to talk about, how much to say, and how to express himself (Drever, 1995).

The unit of analysis in these interviews was the relationship of the stakeholder (respondent) with the organization in question. I started my interviews with general questions about the relationship and an evaluation of the relationship. I then turned to the topic of trust and asked what the term means to the respondent. Following Flanagan (1954) I used the critical incident method to explore events that had caused either a decrease or an increase in trust during the relationship (Tjosvold and Weicker, 1993). I also questioned the consequences of
such events and the respondent’s future relationship with the organization. The interviews were usually conducted at a place of convenience to the interviewee, in a private setting, in a public space or over the telephone. All interviews were taped, transcribed, and coded according to the coding schemes depicted in Miles and Huberman (1994). First level codes and second level categorizations were applied to the relevant passages of the interview using the software package atlas.ti 5.0. The results are presented as a combination of methodological findings and managerial lessons. I will focus more on managerial applicability than theoretical rigor.

5.1.2 Sample

For this analysis I conducted 32 semi-structured interviews, with different stakeholder groups across different organizations. The interviews spanned from 20 to 90 minutes, averaging about 40 minutes.

Table 33: Structure of respondents’sample

<table>
<thead>
<tr>
<th>Interview distribution (N=32)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization</td>
</tr>
<tr>
<td>No. of respondents</td>
</tr>
<tr>
<td>Stakeholder</td>
</tr>
<tr>
<td>Employee</td>
</tr>
<tr>
<td>Client</td>
</tr>
<tr>
<td>Investor</td>
</tr>
<tr>
<td>Supplier</td>
</tr>
<tr>
<td>Competitor</td>
</tr>
<tr>
<td>Student</td>
</tr>
</tbody>
</table>

I sampled based on organizational affiliation and stakeholder group affiliation. I interviewed 17 stakeholders from the four organizations I had surveyed and 21 additional respondents from organizations based in Switzerland, Germany, and the United States.\(^{28}\) The respondents were largely employees (16) or clients (18) of the organization in question but five respondents were investors, four students, three suppliers, and two respondents were former employees that had turned competitor (for more detailed information on sample composition see Appendix C). Some of the interviewees were stakeholders of several organizations or multiple stakeholders, meaning employee in one organization and investor in another. The respondents were chosen based on random sampling using an Internet directory, snowball sampling, and convenience sampling. The intention was to cover as many different aspects of organizational trust by interviewing respondents of various stakeholder groups. I also intended to corroborate the findings regarding the four organizations I had surveyed (see Chapter 6).

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\(^{28}\) Total number of organizations represented in answer set is 27.
5.2 General trust hazards and trust enablers

One decisive finding is that in order to build trust one must be aware of what destroys trust. According to Baier (2001) trust is often assumed to be a default and we do not care about it until it disappears. So, a key factor in building and maintaining trust is not to destroy existing trust. As Calman (2002) remarked “trust comes on foot, but leaves on horseback.” Galford and Drapeau (2003) note the enemies of trust can be many. They can be people, practices or philosophies. Some of these enemies are very visible and easily spotted; others are more covert. Practically speaking many breakdowns in trust can be attributed to a violation of expectations in the dimensions of competence, reliability, integrity, transparency, benevolence, and identification.

In the following I will identify general factors that support a trust-building process in organizations. I will classify hazards as part of organizational trust and juxtapose them against potential enablers of trust, which I identified based on the interviews and literature analysis. I will present the hazards and enablers of trust within the dimensions of competence, reliability, integrity, transparency, benevolence, and identification.

5.2.1 Competence

In interviews the competence dimension is rarely directly elicited when talking about trust. Very often, however, competence is an implicit requirement for stakeholders to trust an organization in the first place. As Shaw (1997) argues, in most people’s understanding of trust competence does not matter; still, it is a central aspect and needs to be taken into consideration when building trust (Lewis, 1999).

5.2.1.1 Hazards

The hazards to trust I identify in the area of competence are low product and service quality (technical competence), as well as low flexibility (managerial competence) and consistent signals of corporate underperformance.

5.2.1.1.1 Poor product and service quality

The products and services offered by an organization are communicative elements that establish a relationship between clients and an organization. Poor product and service quality directly affects the trust levels of customers. However, poor quality levels will not only affect customers’ perception, but also the perception of the company as a whole, and investors, employees and suppliers will trust the organization less as a consequence. Investors in their due diligence process focus strongly on service and product quality, before they invest (Aaker and Jacobson, 1994; Stoughton, Wong and Zechner, 2001) and employees are more likely to join an organization when quality levels of services and products offered match general expectations (Fombrun, 1996).

The example of Dana, a 31-year-old health professional and a computer user shows that low product quality destroys trust and readily leads to an end in the relationship:
INTERVIEWER: Can you tell me about an incident that decreased your trust?
DANA: I had this Dell computer, and in the first few months it already had problems. I called them and they said: “Yes, send it in.” I needed my computer and could not really afford to send it in, but I did. When it came back for awhile the computer worked, but there were still problems. So I called them again and they apologized, but it took me almost a year to get my computer to work properly.
INTERVIEWER: So, how do you feel about them now?
DANA: Well, the computer worked after awhile but I will never buy a computer from them again.

Respondents like Dana link low trust levels to bad product quality. Malfunctioning computers, suboptimal software functionalities (see Microsoft)\(^{29}\) or cars that have to be recalled (see DaimlerChrysler)\(^{30}\) are causes for decreases in trust. Low service quality, such as incompetent advice in banks or bad customer service also contribute to decreases in trust. In many cases experiencing poor quality leads clients to leave the organization.

5.2.1.1.2 Managerial Inflexibility

Some organizations are technically very competent, but lack the capability to change when necessary. Adaptation to markets and flexibility in response to new circumstances is critical to gaining and maintaining the trust of investors as well as of employees.

In the eyes of clients of organization 2, management does not seem very competent. Julian, a 32-year-old Ph.D. student in Switzerland states that:

> I think they [organization 2] lost sight of their public objective and I think they do a bad job offering public transportation which is competitive with other transport but has to connect rural and city areas with the service they offer. Compared to the Swiss system they are ages behind what I consider a trustworthy company.

Trust in an organization is coupled with the perceived competence of management and its flexibility to respond to competitive demands. In organization 2 changes, perceived as necessary, were not made, and the organization is viewed as less competent.

5.2.1.1.3 Consistent levels of underperformance

Both technical and managerial incompetence can lead to consistent corporate underperformance, which can rapidly erode trust. Seifert (2001) examined trust in


organizations in the former East Germany, and noted low trust levels among all organizations that did not perform well. In general, when an organization’s performance is weaker than expected, a growing number of employees at all levels are concerned about their livelihoods on a daily basis. According to Galford and Drapeau (2003), in such situations employees spend less and less time thinking about the organization and more and more time planning their next moves. Suppliers will also be troubled as is well illustrated in the General Motors case, and investors may quickly defect from the company.31

5.2.1.2 Enabler

The enablers to trust I inferred and identify in the area of competence are focus on quality (technical competence), increased managerial flexibility (managerial competence), and clear goals combined with accountability.

5.2.1.2.1 Focus on quality

High trust organizations focus on delivery of quality services and products (Krystek and Zumbrock, 1993). Total Quality Management serves many organizations well in establishing and assuring the levels of quality needed for continued trust. Because of increased cost pressures many organizations cannot afford to ensure high quality along the business process line. In the automobile industry, producers are known to focus on profit maximization and risk lower quality products. In this industry, the number of product recalls is the highest in recent history and hurts the reputation of the producers.32 In this sense, increased quality focus can help organizations rebuild trust and create a basis for long-term success.

5.2.1.2.2 Flexibility

Managerial flexibility and strategic competence are keys for building and maintaining trust with stakeholders. Even when strategic changes have negative results for stakeholders, trustworthiness can be maintained.

Ernesto, a former management consultant, who left his company after a strategic change stated:

I think that Organization 3 is trustworthy since leadership knows what it is doing. Even though they are not focusing on strategy consulting anymore, which is what I

31 http://www.pbs.org/newshour/bb/business/jan-june06/gm_4-20.html
32 See e.g. http://www.automagazine.de/themen/00149/index.php (03.03.2006)
liked to do, I think the organization is very competent and I would recommend it to anyone who is interested in more technical aspects of management and investors, definitely.

Even though employees might suffer from restructuring, in many cases managerial competence is acknowledged, and trust in the firm’s leadership can increase. Respondents of organization 1 and organization 3 both reported that even though changes were hard, they were seen as necessary and the organization was trusted more as a result.

To increase flexibility outsiders can be brought into the organization. Outsiders are not disposed to a tunnel vision and are able to ask questions that can lead to necessary changes and adaptation processes. Competent outsiders will enable the organization to think ‘outside the box’. It is clear, however, that no single solution can lead to increased managerial competence. Being aware of the relevance of managerial competence and flexibility, though, can help organizations to better build and maintain trust.

5.2.1.2.3 Goals and accountability
Implementing suboptimal strategies often causes consistent underperformance. According to Collins and Porass (2002) setting clear and ambitious goals helps organizations obtain superior performance. Goals need to be communicated well to relevant stakeholder groups. Once a common understanding is created, accountability can be developed. Strategic stakeholder alignment is seen as crucial to organizational success. Clear accountabilities are necessary for an organization to reach its goals and increase overall performance (Shaw 1997).

5.2.2 Reliability
Aspects of reliability and consistency were central to interviewees’ understanding of trust. Breaches were frequently reported and it seems that efforts to building trust needed to focus on reliability and consistency.

5.2.2.1 Hazards
In the realm of reliability, trust is endangered by inconsistent messages, inconsistent standards, and broken promises.

5.2.2.1.1 Inconsistent Messages
Inconsistent messages are one of the most critical hazards to building and maintaining trust. Menacing messages can be either verbal or behavioral. In organization 1 one critical barrier to trust was the perceived inconsistency in messages by top management.
Asking the middle managers in organization 1 how they perceived the current change processes, many expressed their skepticism towards top management.

INTERVIEWER: So, why are you skeptical?
MANAGER: You know, I have been here for 15 years and we have had many attempts at trying to change the situation. They never worked. The boss says one thing and then does another. I don’t believe that this time it will be different. We will come up with a plan to change and then continue as usual.

Top management declared it supported the changes middle management had proposed, but top management’s actions undermined these changes.

MANAGER: Well you know, at first it seemed like he supported the new team structure, but all the decisions we agreed on in our team, he just doesn’t care about. He decides his way, like always.

According to respondents, teamwork was encouraged and more active participation by all employees demanded. However, when middle and lower management took decisions, senior management interfered and sometimes reversed outcomes. Consequently, trust was quickly dissolved and motivation and commitment lowered.

Inconsistent messages can occur anywhere in an organization, from senior managers on down. They can also occur externally, in the way an organization communicates with its customers or other stakeholders. If a new pricing system is sold and advertised as “simple and beneficial” to most clients, and indeed it turns out to be the opposite (see Deutsche Bahn or Deutsche Telekom), trust quickly disappears and repercussions are significant.

5.2.2.1.2 Inconsistent Standards
Another problem and source of mistrust is an inconsistency of standards across stakeholders and within stakeholder groups (Galford and Drapeau 2003). As Slavio, an immigrant cab driver in Boston remarked:

I do not trust my employer, because he prefers white, American-born cab drivers.
He gives the good rides to the guys he knows, not to anybody else.

Similar reactions are expressed by employees of a nursing home, who mistrust their leadership because they employ different standards.

INTERVIEWER: What incident destroyed your trust?
EMPLOYEE: Vacations were not allotted to the workers because there was a lack of personnel, but during this time leadership went on vacation anyway.
Inconsistent standards for leadership and employees often cause mistrust. Galford and Drapeau (2003) claim that employees keep score relentlessly. Preferential treatment for star performers often engenders cynicism in the rest of the organization.

Mistrust increased also when a European organization that claimed to be an ecological pioneer was found not to apply the same standards in Asia and Latin America. Inconsistent standards are always a source for mistrust. Preferential treatment of one stakeholder group versus another, for example shareholders versus employees, is as problematic as playing favorites within one stakeholder group.

5.2.2.1.3 Broken promises

In almost all the interviews I conducted, a broken promise seemed to be the main reason trust disappeared, especially when organizations did not deliver on promises made. Below, a commuter scolds a railway company because it announces train schedules that are not met.

I was going to the U.K. and took the train to the airport, there is a direct train, but it was one hour late and I almost missed my plane. I have to be able to trust that the organization will keep its word.

A high tech company loses employee trust when its promise of ‘only one round of layoffs’ is not upheld. A former employee recounted:

At first, they made a promise. … I know that it’s a very hard decision for senior managers to say lay ‘em off. So, in order to cushion that, they said, okay, this will be the first time and this will be the last time, all the time. So they tried to make it more acceptable to the employees, that way. … and they ... they laid off again the second time. … So that was like a breach of trust and confidence.

A client of a cable company becomes mistrusting when promised repairs that never take place.

Cablecom does not do what it promises to do. They never respond to my complaints. I called them 11 times last year and they never returned a call. They don’t care.

Broken promises such as not paying bills or even very minor incidents, such as failing to return calls often turn into a trust hazard.

A supplier argues that trust is decreasing across the board in today’s economic way of life:
It is currently as probable as not that a justified bill is not paid. This is the business aspect, but it also starts with little things, like people not calling back when they said they would or people not meeting …deadlines.

Broken promises are a major factor leading to losses in trust. According to Elangovan and Shapiro (1998), the issue of broken promises concerns not only promises that are made explicitly, but extends to all violations of societal norms or social contracts. Task or value-related violations of expectations can cause trust to disappear when these expectations are personal and pivotal to the relationship (Elangovan and Shapiro, 1998). If the expectations are not pivotal, then their violation is not significant to the relationship and will most likely be excused, ignored, or viewed as a disappointment (Jones and Burdette, 1994). But in situations where violated expectations have serious consequences, such as missing a plane because a train was behind schedule, or not receiving a contract because technical gear was not delivered in time, trust is broken and future cooperation endangered.

5.2.2.2 Enabler

Inferring from the results on trust hazards, clear priorities, simplification of rules, and adherence to standards as well as wise choices when promises are made, act as enablers of trust in the realm of reliability.

5.2.2.2.1 Clear priorities

According to Simons (2002), inconsistent messages often derive from unclear priorities. To avoid inconsistent messages, managers need to think through their priorities and learn to articulate them in a coherent fashion. A stakeholder dialog can again be helpful in a priority setting process. Galford and Drapeau (2003) note leadership of the organization must ensure that goals are communicated clearly so that the organization can speak with one voice. In times of heightened media coverage the number of statements an organization makes increases. Often inconsistent messages are inevitable. Galford and Drapeau (2003) therefore suggest that major media announcements be reserved for truly key initiatives.

5.2.2.2.2 Simplification of rules and adherence to rules

Standards can be implemented inconsistently because of mere carelessness or because of intentional disregard. Carelessness can be countered with training measures to increase awareness of the standards and their importance. Intentional disregard is difficult to counteract, but often the sheer number of rules in organizations provoke transgression. In this sense a reduction of rules and standards to the minimum can help. Shaw (1997) argues that many successful companies apply the rule of common sense. Employees are encouraged to think for themselves about what is appropriate and what is not. He believes empowering employees increases accountability far more than imposing standards or behavioral codes.
cases where standards do make sense but exceptions are required, explanations for these exceptions need to be clearly communicated. As with corporate governance codes, the principle to ‘comply or explain’ can be implemented for internal standards as well, thereby ensuring credibility and trust.

5.2.2.2.3 Choosing promises wisely
To regain trust, promises should be made wisely and restrictively. Organizations tend to experience an inflation of promises, whether marketing promises to customers, investor relations to investors, or managers to employees. Taken to its logical conclusion, these inflated statements must devalue the promise. Simons (2002) argues that promises should only be made when it is clear they can be kept. He also advises not to “spin” in case of a broken promise, but rather to admit one’s inability to make good on the promise (Simons 2002). Management often knows that promises cannot be lived up to, as for example promising no layoffs, and these promises should therefore not be made. Management should keep in mind a promise on an outcome is always difficult to live up to since outcomes can rarely be controlled. In many cases only a promise about advocacy on behalf of a certain stakeholder interest can be made. Trust can be built if difficulties encountered in fulfilling promises are communicated well.

5.2.3 Integrity
Respondents often cited concerns regarding integrity as reasons for mistrust. Perceptions of integrity and authenticity are viewed as key elements of trustworthiness.

5.2.3.1 Hazards
Hazards to trust are many in the field of integrity but can be categorized under the rubric of hidden agendas, opportunism, and Machiavellism.

5.2.3.1.1 Hidden agendas
Some organizations are not trusted since a hidden agenda is assumed.

INTERVIEWER: Okay and what do you associate with trustworthiness?
RESPONDENT: … some institutions are more trustworthy than others. I would never trust scientology for example, or, sects or, companies that work with global systems, with details that are not communicated in the sales pitch; that now are written in the small details of the contract, fitness studios with long periods to give notice. These things are not trustworthy.
INTERVIEWER: Okay, …scientology or sects because of what exactly … you don’t trust..?
Manipulations and hidden agendas are assumed for some organizations, but also measure relationships with teammates or leaders.

EMPLOYEE: … the important thing is that you can trust people in your team. Some people are not reliable and they just abuse you, they play a ‘false game’ just trying to look good in front of superiors.

In many organizations trust is low because people do not trust the motivation of peers, subordinates, superiors or partners. In many cases hidden agendas are assumed; students question motives of professors, managers the motivation of investors, while members of society question the motivation of companies in general. Whatever the communicated goal of an organization, most stakeholders interviewed assume profit maximization is the real motivation behind a business.

INTERVIEWER: So, would you say you trust businesses in general?
RESPONDENT: … for businesses in general [my trust] would be quite low.
INTERVIEWER: Because?
RESPONDENT: Because, well they’re profit motivated, and a lot of them, actually with those businesses that you only have a one time relation with, those I believe [are] just, … basically, out to maximize profit from you.

Profit maximization, seen as the real motive for many businesses, lowers stakeholder trust. It is interesting to note that respondents who were intensively exposed to business practices are more mistrusting than less informed respondents.

5.2.3.1.2 Opportunism

Another hazard to trust is opportunism. Opportunism as Williamson (1985, p.45) defined it is “self-interest seeking with guile.” Respondents often describe their environment as one based on a philosophy of opportunism that leads to a heightened sense of betrayal. In a very drastic case of opportunism, one respondent reported that he was removed as CEO of his own company, because other employees expected better compensation with a new CEO. He recounted the story:

The guy entered the company through a capital increase. He took care of the distribution and negotiated with banks. I took vacations for the first time after 4 and ½ years and the business was debt free by then. Somehow, when I was gone, the supervisory board decided that the situation was very terrible, even though the protocol says everything was fine. […] However, when I came back from the vacation, the guy was CEO and then I knew they played a ‘false game’. Shortly after the new CEO took office the payment for all who supported him was increased, but only after 6 months they filed for bankruptcy.
A staged takeover led to the CEO’s replacement and indeed compensation packages were drastically increased but resulted in filing for bankruptcy the following year. This maneuver had drastic long-term consequences for employees’ trust in the organization. One employee said:

At first we felt it was strange that the founder of the company and the person who owns most of the shares, can be kicked out that easily by someone who only joined the firm six months ago. But my trust was only really decreased when we saw how the new leadership just spent money on all these unnecessary things such as logos or company cars etc. while we were cash strapped in the technology area, which was core of our business.

Self-interest seeking with guile by the new CEO led to a tremendous decrease in trust within the company. It also led to the creation of two rival firms by former employees, who left the company because they could not identify with the organization anymore.

This might be an extreme case of personal opportunism, but according to Hogan and Hogan (1994) opportunistic betrayals in everyday life, ranging from failing to return a phone call to deliberately sabotaging another person's reputation, are relatively common. In a study by Jones and Burdette (1994) focusing on betrayal in the workplace, 25.4 percent of men and 9.4 percent of women identified work-related episodes in which their coworkers or bosses had betrayed them. According to Elangovan and Shapiro (1998), betrayal episodes in the workplace are not only prevalent, but their effects are lasting. Opportunistic betrayal menaces trust, motivation and commitment in the very long term.

5.2.3.1.3 Machiavellism

Employees complain that in many cases they are a play ball for ‘politics’. One employee of a renowned bank quit his company because his department no longer focused on work; political games determined their daily lives instead.

EMPLOYEE: I switched to the new employer because I did not trust my manager at the old bank anymore. He preferred his own department, even though we were much more successful. We had to share our success with the worse performing department and were entangled in these political games. We were not in the ‘right camp’.

Many employees also feel that leadership views them merely as resources and not as a viable end in themselves.
EMPLOYEE: The whole atmosphere at the company is … look for example at the term ‘human resources’. That already indicates how the company sees its employees…just as a resource, a material.

Stakeholders do not build trust when they believe they are a resource or pawn in a political game. While ‘playing politics’ and ‘shrewd maneuvering’ are often touted as great business skills, they do not lead to a heightened sense of integrity. Macchiavellistic maneuvering, playing politics and treating stakeholders as a means rather than an end are behaviors that menace trust.

5.2.3.2 Enabler

Inferring from the trust hazards in the area of integrity several approaches can support trust building. In general it can be argued that ethically based management promotes trust. Specifically, ethically grounded goals and accountability are key to increase trust among stakeholders.

5.2.3.2.1 Integrity-based management

Shaw (1997) argues that top management needs to display behavioral integrity to build trust. Tschannen-Moran (2004) posits that words and actions need to be aligned in a way that stakeholders see it. Turnbull (2002) reflects on the lessons to be learnt from Enron and demands that top management and supervisory boards reflect on the motivations and driving forces behind the organization and its individuals. Hidden agendas cannot be avoided but the selection of individuals who possess ethical fiber is key to establishing a trustworthy organization.

5.2.3.2.2 Accountability

Inferring from the trust hazards, management needs be aware of the detrimental consequences of opportunistic behavior. Following Bakan (2004) responsible behavior and accountability are essential to regaining trust. The Global Reporting Initiative (GRI) and the U.N. Global Compact suggests that every organization voluntarily engage in accountability procedures. This is especially relevant for public companies that legally dispose of limited liability.

5.2.3.2.3 Ethically grounded goals

Judging from the evidence, Machiavellism and the goal of profit maximization by all means conflict with the notion of trust. Collins and Porras (2002) argue that companies successful in the long term are built on a vision that is morally grounded. Visions and goals that encompass moral dimensions and are lived credibly (Hewlett Packard and Procter & Gamble are cited as examples) ensure trust. Hence Paine’s (2003) stress on integration of
financial and social imperatives based on ethical principles to ensure organizational trust of stakeholders across the board.

5.2.4 Transparency
A lack of transparency caused most recent corporate scandals. Even though the call for transparency dominates much of the literature on reestablishing trust, transparency was not an aspect cited in the narratives of my interview partners.

5.2.4.1 Hazards

Opacity and its ensuing rumors are hazards to achieving trust through transparency.

5.2.4.1.1 Opacity
Corporations are frequently viewed as opaque and untrustworthy (see Chapter 1). Respondents in my interviews often argued that companies are mistrusted because they are so large it is unclear to them what exactly the company is doing.

RESPONDENT: If you say company, I immediately assume a big corporation, one that is interested in a profit, more than customer satisfaction.
INTERVIEWER: And that means what to you?
RESPONDENT: Bad. Big things worry us. … Even the ones that promote an image of altruism, like Patagonia and stuff, I always distrust it a little bit when they’re a big company. … And it’s only when companies get small enough or local enough that you actually know people involved with them, and then maybe you stop feeling that way.

Smaller organizations are often preferred, since they seem more transparent. Another respondent donates money to small organizations since large ones never seem transparent to her.

RESPONDENT: It is a big question for me who I should donate to. All the big organizations are somehow intransparent. So I prefer giving to small projects where I know the people, such as local help groups.

In one case a former intern used personal experience to explain his mistrust in large corporations. While working for Hofmann La Roche he thought very highly of the company, until he heard about the ‘vitamin cartel’ with BASF and his trust dissipated.

RESPONDENT: I worked for Roche as an intern in the vitamin department, and I also met the leadership of the division. I liked them and I felt they were good people, but when I heard about the vitamin cartel I felt ‘damn, what is going on’. These are the people I sat on one floor with and they are supposed to be the biggest
criminals. My trust went way down and I became skeptical of all business leaders as a consequence.

Bakan (2004) claims that corporations are often rightly mistrusted since they are not open about their activities and try to conceal negative actions. Mistrust in companies is often based on the fact that one ‘does not know what they are doing’. The growing support given to organizations such as “Corporate Watch” or “Transparency International” underscore that there is a public need for this information. Opacity strongly threatens trust.

5.2.4.1.2 Rumors in a vacuum

In many organizations leadership does not communicate relevant information in a timely fashion. The low levels of communication might be based on intent or negligence. In organization 1 employees were rarely informed since management deemed it ‘a waste of time’ to do so. Top management argued that it is none of ‘their’ business and employees ‘should do their work’.

MIDDLE MANAGER: The problem here is not so much for me personally, since I do get the information relatively quickly, but with workers it is different. Sometimes employees are not informed at all or only half the story is told, sometimes this is consciously done sometimes maybe not, but the climate is hence not very trusting because other people also notice what kind of information is communicated or not.

Another employee stated

Transparency is very important to me. In the restructuring phase it is very important to talk to the people,… ‘what is happening and why’ …otherwise you are making up your own explanation, it could be positive or negative, you don’t know what they talk about, but I often have the feeling these people talk about me and I keep asking myself what did I do wrong?

When relevant information is withheld stakeholders are left in a ‘guessing game’. Galford and Drapeau (2003) posit that insufficient communication leads to over-interpretation of available facts.

Employees know that something important is going on, but if they don’t know the full story (maybe the full story doesn’t exist yet), they’ll quite naturally overinterpret any shard of information they get their hands on. Rumors circulate, and, in most cases, they’ll be negative rather than positive (Galford and Drapeau, 2003, p.4).

At organization 1, it seemed that every employee spent a considerable amount of time trying to figure out what was happening. Over coffee breaks thoughts were exchanged and rumors created, which were almost always based on negative interpretations. As Galford and
Drapeau (2003) suggest insufficient communication allows rumors to germinate and rumors always undermine trust.

5.2.4.2 Enabler

Communication is the main enabler of trust in the area of transparency. Communication of relevant information in a timely fashion helps to overcome the challenges posed by opacity. A ‘front page’ test can be applied to evaluate the information and its impact on trust.

5.2.4.2.1 Communication

Organizational processes and culture can contribute to an open atmosphere. Communicating relevant information in a timely fashion on a regular basis can contribute to transparency and increase trust across stakeholders. In organization 1 a fixed communication schedule was established so that employees were informed about ongoing matters by their superiors on a regular basis.

EMPLOYEE: With the new team structure and the weekly sessions, the information flow is much better and people appreciate that.

Time spent playing a ‘guessing game’ was significantly reduced and trust reportedly increased.

5.2.4.2.2 Front-page test

To protect organizations from wrongdoing many consultants propose a so-called ‘front-page’ test (Shaw 1997). This test lets managers reflect on reactions that readers of a newspaper would have if they had known about a certain activity in the organization. This test can help to detect internal wrongdoings upfront and can help to create strategies on how to communicate issues of relevance. Respondents in my interviews often did not mind mistakes being made, but they were very sensitive to the way mistakes were handled. If a mistake had been detected and was openly communicated oftentimes trust was maintained and even built as a consequence. An example was the way Deutsche Bahn handled the Eschede accident, in which a fast train derailed and more than 100 people were killed. Customers reported that trust in the company increased as management communicated openly potential causes for the accident.

INTERVIEWER: Okay, and so what makes you think the Deutsche Bahn is trustworthy?

RESPONDENT: It’s technical things. I remember, when there was this accident in Eschede. Remember what I mean? They made a very big deal out of it and they investigated very thoroughly what happened, and why the train crashed. And, since then, when you take the German railway and you look into the magazines that they
have in the train, they tell you, how often each train is maintained and what they do to ... all these security things ... I believe that they really do that. . .

INTERVIEWER: So you believe they are honest and openly communicating?

RESPONDENT: Yeah, exactly, yeah, that’s what I think. And, ... I actually remember... the German railway making some sort of statement why this happened. And that’s not what you get all the time. Like, for example there are planes crashing all the time... And they crash and then it’s in the media, but you really never get to know why they crashed in the end, because you know, after a couple of weeks people forget about it, and they’re still investigating, investigating, and then you never know why it happened in the first place. And that seems to me that with the German railway it seems different.

In this case it seems that management had understood that absolute openness was central to regaining trust and any hidden information would backfire. The front-page test can help assess impacts of communication. Just as trust was built after this major accident by informing stakeholders thoroughly and openly, Galford and Drapeau (2003) recommend that top management be as upfront as possible— even if that means telling stakeholders you can’t say for certain what’s going to happen. They also argue that the less communication there is, the more likely it will be misinterpreted.

5.2.5 Benevolence
During the interviews aspects of concern, care, and benevolence were often cited as reasons for trust and mistrust.

5.2.5.1 Hazards

Hazards to trust in the realm of benevolence are many. Concern and the lack thereof are often viewed as reasons for mistrust. Management autism often causes lack of concern, and misplaced benevolence also seriously undermines organizational trust.

5.2.5.1.1 Lack of concern

In the interviews, one of the most recurring themes for declines in trust was lack of concern. Clients reported repeatedly that they switched providers because of bad customer service. Customers switched banks because they felt they were being treated like a ‘number’.

INTERVIEWER: During this time did you consider going to another bank?
RESPONDENT: Yeah, and I’m still thinking about it.
INTERVIEWER: Why?
RESPONDENT: ‘Cause I feel the bank is just much too big right now. They don’t know your face when you go in. Every time I have to bring an ID when I want to
make a transfer or… for example, when I try to pay my fees …every time I have to bring my ID because they don’t trust me if I, show them my Harvard ID. So every time I have to go back and get my, my passport.
INTERVIEWER: Oh really?
RESPONDENT: And, it’s, it’s really annoying because that’s a service where I have to have face to face contact, and they simply don’t know me, and that’s annoying.

Employees reported low trust levels because they felt they were not ‘taken seriously’. Some employees changed their well paid jobs because they felt the company ‘did not care’ about them.

EMPLOYEE: I quit the company, because the atmosphere had gotten worse and worse. People do not take you seriously, they don’t care about you. This morning in the session I even gave out a copy of an article which said how important it was to be taken seriously. I think they need to know this in this company.

On a societal level lack of concern can create mistrust as well. As shown in the 1995 Brent Spar case, Shell had acquired a reputation as an environmental polluter. When they announced that sinking the drilling platform Brent Spar was economically and ecologically the best alternative (which later proved to be true), the German public mistrusted these statements and massive boycotts ensued. Shell learned the hard way that lack of concern fuels mistrust, and is now actively engaging in stakeholder dialog to demonstrate concern and build trust.

5.2.5.1.2 Autism
Lack of concern and ‘autism’ often go hand in hand in organizations. In many business organizations, for example, top management is uni-dimensionally interested in catering to shareholders. Deutsche Bank is often accused of only caring about shareholders. Before 1995, Shell illustrates well an organization that cut itself off from societal dialogs. Autism can be highly beneficial when firms only seek short-term results (see Deutsche Bank). However the lack of connection achieved through societal discourses regarding decisions hurts reputations and undermines trust.

5.2.5.1.3 Misplaced benevolence
In many other cases misplaced benevolence destroys trust. Interviewees reported situations in which necessary decisions were delayed under the cover of caring. For example an employee reported that a consistently underperforming top manager was not replaced, because he had ties to the owner and the enterprise was family owned.
EMPLOYEE: …this guy was not competent, but in addition, he was morally corrupt. He bought prostitutes on the company bill. He was very sleazy and sometimes even violent. The company kept him in his position because he had ties to the owner’s family.

Galford and Drapeau (2003, p.3) report similar findings:

Anyone who has spent time in business has encountered at least one person who is, simply and sadly, so out of his league that everyone is stupefied that he’s in the position at all. His colleagues wonder why his supervisors don’t do something. His direct reports learn to work around him, but it’s a daily struggle. Because the person in question isn’t harming anyone or anything on purpose, his supervisor is reluctant to punish him. But incompetence destroys value, and it destroys […] trust.

Many times issues are not confronted and even false feedback is given out of fear. One employee complained about the non-confrontational attitude in his firm.

EMPLOYEE: I want to be able to talk about everything, be it positive or negative, only then do you know how to improve a situation. Otherwise you do 30 years the same thing, but if you are open then you can say, wait a moment, yes you are right, I need to change here, even though I did not think so.

Galford and Drapeau (2003) posit that misplaced benevolence demoralizes the real achievers and affects overall performance negatively in the long term.

5.2.5.2 Enabler

Inferring from the trust hazards in the realm of benevolence I identified authentic concern and stakeholder dialog as a means to increase organizational trust. To avoid issues of misplaced benevolence, I propose a direct and open confrontation of the issue.

5.2.5.2.1 Authentic concern

Authentic concern and care are central to establishing trust. One employee stated that he trusted his firm because it had a benevolent attitude.

EMPLOYEE: There was a basic social concern in the company that contributed to my trust. One knows that the company takes good care of you,… even in the case of lay-offs there would always be a generous social plan.

Authentic concern is demonstrated in critical situations such as lay-offs or product defects. Important signals of trustworthiness are sent when a lay-off is done socially or when defective products are replaced immediately, without hassle.
CLIENT: I bought this Apple ipod and after only one week it was broken. Incredible. But I called them and they said I should send it in and they just sent me a new one, so that was great.

Lack of concern can be caused by personalities, processes and the philosophy lived by the organization. Shaw (1997, p.85) suggests firms should “establish formal processes that ensure that people have enough contact with each other and an understanding of each others perspectives.” Regular surveys could be part of these formal processes and provide a sense of stakeholder concerns. An ongoing stakeholder dialog could contribute even more to familiarity and mutual understanding. However, if this dialog is not an authentic discourse in which transformation and adaptation will take place it will not be viewed as authentic. I refer to the manager in organization 1 who stated that he was skeptical about the initiated change, since judging from his experience top management was not really willing to change. In that sense concern needs to be authentic and visible through action. Mere declarations without follow up will only increase cynicism and destroy trust.

5.2.5.2.2 Stakeholder dialog

To avoid the danger of management ‘autism’ various processes can be instated. Corporate boards can include independent members who bring in outside views. Stakeholder dialog can be institutionalized within organizational processes and thus increase awareness and sensibility to issues of concern to the outside world. Reporting processes such as GRI or Global Compact can increase the internal discussion of societal needs. Organizations that actively use the stakeholder management approach are more likely to increase stakeholder trust. One respondent, when asked which of the four organizations surveyed he trusted most, stated:

I would trust the university most since it has a public aim and … is based in Switzerland. It has the cultural heritage of discursive elements within the organization. I was a member of a commission to search a new professor … and I realized how decisions take place and transferring from this experience I think I can really trust these processes to try to get the best for the organization and its environment … I think we live in a stakeholder society and I think that the university really does create value for as many stakeholders as possible and the other organizations do not create value for many stakeholders.

According to this statement and literature (see Dervitsiotis 2003), trust becomes most sustainable when stakeholder management is supported by an institutionalized stakeholder dialog.
5.2.5.2.3 Confronting problems
Galford and Drapeau (2004) argue that misplaced benevolence mainly caused results from fear of not living up to principles. Jack Welch (1992) describes the leadership style at GE, and states the clear processes by which misplaced benevolence is ruled out. Those leaders that achieve results but cut corners do not receive a second chance, he says. Leadership needs to demonstrate ‘tough love’ if it wants to remain credible (see Shaw 1997). That means, for example, such cases as under-performing employees who need to be let go if they cannot either be transferred to more suitable jobs, coached, or surrounded by people who will help them improve (see Hilb, 2004). According to Galford and Drapeau (2003) keeping employees is not a good thing per se, but keeping the right employees is. Therefore problematic issues need to be confronted openly and strategically through consistent processes.

5.2.6 Identification
Questions of value congruence and identification are important issues that continually arose during the interviews, but received little treatment in the literature on trust.

5.2.6.1 Hazards
Hazards to trust in this area are dubious motivations mostly linked to profit maximization. Many interviewees indirectly question the organizational setup that requires businesses to maximize profit and forces firms to think short term.

5.2.6.1.1 Dubious motivation
Many interviewees doubted the motivations and values of business organizations. A central issue that was consistently raised across the interviews was a lack of identification with business organizations because of profit maximization goals.

INTERVIEWER: So can you tell me why you don’t trust any bank?

CLIENT: that’s a difficult question. I think they only care about the money which is on the account and how they can use the last dollar of every customer. But, it’s not really about your money, ‘cause you don’t get really a lot of interest on your savings account either. And, you actually pay more interest if you overcharge your account, … I don’t think this is the way it should be.

A former employee of a consulting firm states that he hedges a general mistrust towards the organization because it is profit motivated.
FORMER EMPLOYEE: …I trust [organization 3] less, because what I don’t like about the organization is that they are basically profit motivated.

Many respondents placed trust in business organizations rather low, while trust in churches, NGO’s or several state-run organizations, such as the police was quite high.

INTERVIEWER: Which societal organizations do you trust the most and which the least?

RESPONDENT: … trust in the church and NGO’s is high, business I trust much less, for example the pharma industry is only interested in making profit. They are aligned in a way that they have to screw you over…

Another respondent argued in a similar fashion.

INTERVIEWER: So, would you say you trust businesses in general?
RESPONDENT:… for businesses in general [my trust] would be quite low.
INTERVIEWER: Because?
RESPONDENT: Because, well they’re profit motivated…

Many respondents rate trust in organizations with a social purpose much higher and could not identify with the profit maximization objective pursued by most businesses. Interestingly, especially respondents with considerable business experience and management insight reported a high level of disconnect with the values of business organizations. Judging from my sample it seems that profit maximization, the central objective of shareholder capitalism, severely undermines trust in business organizations.

5.2.6.1.2 Organizational setup

Publicly listed companies with an obligation to maximize profits were not trusted as much as, for instance, family-owned businesses or NGO’s or enterprises with a social mission.

INTERVIEWER: But is there one organization that you can come up with that you trust the most?.. or which one would you consider specifically trustworthy?
RESPONDENT: For me, family businesses are often much more trustworthy because the reputation of the owner’s family is at stake. They’re much more attached to their local environment because they often live in that area and, therefore, have an expectation to live up to.

As Hart (2005) posits the short-term focus of businesses and lack of concern about environmental destruction are common reasons for mistrust. Some respondents argued that family businesses or NGO’s do not succumb to the pressures of the financial markets and hence can be more socially responsible. Bakan (2004) blames pressures generated by
financial markets for detrimental effects on society and argues that the setting up of the corporations as organizations with limited liability as a basic reason for justifying mistrust.

5.2.6.2 Enabler

To regain trust for value congruence, organizations can include social and financial imperatives in their strategy. To better build trust a different organizational setup can be considered, since outside pressures of the financial markets often lead to destructive behavior.

5.2.6.2.1 Combining social and financial goals

In general it can be seen that organizations that follow altruistic goals are viewed as more trustworthy. NGO’s and churches are credited with delivering necessary services while the same is not claimed for business organizations.

INTERVIEWER: So, can you tell me why you trust churches..?

RESPONDENT: Yeah, … you know where they come from, you trust them because they have… an altruistic view of what life is about, [they are] … concerned with serving others than themselves.

The police are seen favorably as well, since help can be expected even if one does not pay.

INTERVIEWER: So why do you trust the police?
RESPONDENT: …the Swiss police. I have the impression that… in Europe, or in countries I’ve been to, I can really trust the police. And …when you have a problem, you can go to them and they will somehow help you. Not … when you…pay them money, then they will help you, or that they just send you right away, but they will somehow help you. Whether it’s successful or not, I don’t know. … the police … helps.

Organizations with altruistic motives or missions to serve others enjoy higher trust since many people share these values. It would be naïve to suggest that companies should become charitable organizations, but it is important to note that in terms of trust, profit maximizing organizations fare much worse. Reflecting this finding Lynn Paine (2003) suggests a value shift has taken place among stakeholder groups and that expectations towards organizations have begun to include social responsibility. She thus calls for an integration of financial and social imperatives. Corporate Social Responsibility (CSR) is a response to the increasing value shift, but oftentimes CSR is perceived as “window dressing” and hence its potential to increase organizational trust is limited. Austin, Leonard et al. (2005) recommend ‘social entrepreneurship’ as a way for companies to create social and economic value. In general, a more service-oriented goal set can better position an organization to earn stakeholder trust.
5.2.6.2.2 Different organizational setup

While it is hard to change goal sets in the environment of shareholder capitalism, companies that are not publicly listed such as family businesses (BMW or Gore) avoid pressures to profit maximize and often enjoy higher levels of trust (see Gladwell, 2002). Eckart (2005) and Nerge (1997) suggest that cooperatives such as Raiffeisen or Mondragon have strategic advantages through higher levels of legitimacy and argue that these types of businesses often serve a higher purpose with which stakeholders identify. Hence it can be argued that a different organizational setup in which the financial markets do not exert much pressure to focus on short-term financial outcomes help to build trust.

5.2.7 Mistrust - the biggest enemy of trust

One hazard of trust which receives very little attention in the management literature is **mistrust**. From my findings I posit that mistrust is the biggest enemy of trust and when focusing on building trust, signs of mistrust need to be understood. Oftentimes leaders express mistrust in their employees, as the top manager of organization 1 did. In one of the first meetings, he showed me around the production facilities and explained his philosophy.

**BOSS:** I always have to check and walk around to make sure that everything gets done right, because you know,...they [the employees] need someone to tell them what to do, you always need to be behind them so things get done...

Assuming that all employees need him to tell them what to do, demonstrates the boss’ lack of trust in his employees to get things right without his supervision. When interviewing the employees of the organization, the boss’ mistrust was felt and returned by the employees’ mistrust of him. One manager stated that his trust decreased because of the mistrust he experienced.

**EMPLOYEE:** I feel that I am controlled a lot, and this affects my trust negatively. When I am trusted, my trust is higher, ..but if you are continuously controlled...[He rolls his eyes and looks to the ceiling].

One employee voices his disappointment about not receiving a promised promotion as a sign of mistrust, which in consequence decreased his trust.

**RESPONDENT:** The incident that decreased my trust drastically just happened very recently. Even though I was promised ’prokura’ many times, the leadership just said, ‘no there won’t be any ’prokura’ for you.’

**INTERVIEWER:** and what does the whole thing mean for you?

**RESPONDENT:** It shows me that my work is not appreciated,.. it was a first-class proof of mistrust. ...It was a sign that they were not willing to manifest to the outside that they trust my decisions.
Asking employees how they rate the level of trust within the company respondents argue that it is rather low, even though the company was doing very well in financial terms.

INTERVIEWER: In general if you judge the atmosphere in your company, is it a high trust or low trust atmosphere?
RESPONDENT: Well you can notice it, trust here is neutral to lower. It is really that things get questioned all the time, if he [the boss] knows that I am doing all right he should just trust me.

Another employee states:
EMPLOYEE: …the boss often just controls everything, even though he should know that I have delivered very good results in the past… he should know what I am planning get’s followed through…”

A third employee cited another sign of the company’s low trust culture:
EMPLOYEE: The firm is not very open towards its employees, you can see that continually, for example, when you want to access the IT system. It is very supervised and they make sure that no one has access to the false areas.”

Employees agree that their boss is creating an atmosphere of general mistrust within the company. They complain about the lack of trust displayed by leadership and argue that it is the main reason for low trust on their behalf. Even though they are often overlooked, signs of mistrust are an important reason for trust decrease. In many low trust narratives mistrust, which is intended to safeguard against opportunism, creates just that – mistrust and opportunism. A banking client who was constantly asked to prove her identity, interpreted that as a sign of mistrust. She reported that she in turn became more suspicious of the bank herself, and eventually wanted to change banks.

RESPONDENT:.. I am thinking about changing the bank ... Every time I have to bring an ID when I want to make a transfer or when I try to pay my fees ..., every time I have to bring my [passport] because they don’t trust (author’s emphasis) me if I, I show them my Harvard ID.

Ripperger (1998) and Luhmann (2000) argue that mistrust generates a downward spiral effect. Signs of mistrust create mistrust as a self-fulfilling prophecy, making mistrust the biggest hazard to trust. Malhotra and Murnighan (2002) report that signals of mistrust such as highly specified contracts, result in lower levels of cooperation. Sprenger (2002) states organizations that monitor employee attendance, report lower levels of productivity. Shaw (1997) recounts the story of Bill Packard who noticed that at his former employer, General Electric, tools were safely locked up so that nobody could steal them. This signal of mistrust somehow created a challenge for employees and it became a sport to overcome security controls and soon every worker had a toolset at home. When founding Hewlett & Packard,
management decided to trust their employees and not lock anything away; in fact, they encouraged people to take tools home, so they could work on their ideas more. The high levels of innovation experienced at HP are often attributed to the high level of trust (Shaw 1997, Collins and Porras 2002).

In most companies control practices undermine trust. Pervasive signals of mistrust, such as detailed contracts, camera monitoring, or incentive schemes based on external motivations undermine trust. The signals of mistrust are often very subtle but powerful and destructive. Trust is undermined by mistrust, a finding that sounds rather banal, but has immense repercussions for management.

5.2.8 Trust as a self-fulfilling prophecy
Trust is a self-fulfilling mechanism, meaning that it grows the more it is employed (Luhmann, 2000; Sprenger, 2002). Trust is one of the resources that does not adhere to the economic logic: It increases -not decreases- when used (Sprenger 2002).

In several interviews respondents powerfully demonstrated the impact of trust on trust. When asked about an incident in which his trust had increased, one employee recounted that his trust increased immensely when leadership expressed their confidence in him to manage a complex project.

INTERVIEWER: Can you tell me of an incident that increased your trust?

RESPONDENT: …I felt it was very positive when in a general meeting leadership said, ‘Yeah, we think you are the man for the job. We trust you to do that.’ I just grew about 2 meters. My motivation increased dramatically.

In another incident an employee reported that his trust skyrocketed when he was given responsibility for a small business branch.

INTERVIEWER: ..and can you tell me of an incident in which your trust increased?
RESPONDENT: Guess it was when I was working for my first employer, which was a big, traditional Japanese company; and they usually don’t give their younger people too much responsibility, or too much …leeway. But, once they actually gave me the responsibility to run a small, [a]very small portion of the business. … I felt quite good. I felt that they trusted me with that, even though it wasn’t really spectacular. …

INTERVIEWER: So your trust went up?
RESPONDENT: My trust went up, yeah.

In both incidents employees felt trusted which increased their trust in the organization tremendously. Luhmann and others thus postulate more trust in trust and Hoehler (2002) views trust as the most effective control. Many organizations, however, build their processes on the philosophy of theory X (McGregor, 1960), which basically assumes the negative self-serving nature of human beings. In recent times organizations based on theory Y, for
example Ebay or AES, have continually proven that trust creates trust and results in higher levels of success.

5.2.9 Conclusion

Lack of trust caused by the enemies of trust (Galford and Drapeau 2003) has serious consequences. Simons (2002) studied the effects of mistrust in organizations in the hotel industry and found a stunning ripple effect. Hotels where employees strongly believed that the organization and their managers were trustworthy were substantially more profitable than those that were not. A one-eighth point improvement in a hotel’s score on a five-point scale could be expected to increase the hotel’s profitability by 2.5% of revenues which translated to a profit increase of more than $250,000 per year per hotel.

If stakeholders don’t trust the organization and its leaders, they’ll disengage their cooperative efforts. Clients might switch brands, investors will reallocate their funds and suppliers not deliver their best service. Employees will look for another job or succumb to inner resignation in their current job. Galford and Drapeau (2003) believe that lack of trust results in organizational confusion, decline in productivity, and decrease in competitiveness.

In the above presentation I summarized the hazards and enablers of organizational trust based on interview analysis and literature research. I tried to categorize the findings along the trust dimensions identified in chapter 4. While this list is by no means exhaustive it can serve as a starting point for reflection on how to build trust in organizations (see Figure 17).

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<th>Trust Building Essentials</th>
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<td>Trust Hazards</td>
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<td>low product and service quality</td>
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<td>managerial inflexibility</td>
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<td>consistent underperformance</td>
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<td>Reliability</td>
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<td>inconsistent messages</td>
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<td>inconsistent standards</td>
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<td>broken promises</td>
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<td>Benevolence</td>
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<td>autism</td>
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<td>misplaced benevolence</td>
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<td>Identification</td>
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<td>value incongruence</td>
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<td>Overall</td>
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Figure 17: Trust building essentials – trust hazards/ trust enablers.
5.3 Leverages points for organizational trust building

After identifying the ‘do’s’ and ‘don’ts’ for organizational trust building this section will focus on managerial implications and access points from which to build trust. In line with the findings of the previous section, Shaw (1997) argues that “distrust is the source of many of the problems that plague organizations.” So just how can businesses and other organizations deal with this pervasive mistrust? Shaw (1997) focuses on three key leverage points for building organizational trust: leadership, organizational architecture, and organizational culture.

5.3.1 Organizational Leadership

Following Dervitsiotis (2003) an organization’s leadership plays a crucial role in developing trust. Dervitsiotis suggests that leaders set the overall framework and the policies for enforcing values that continually reinforce or inhibit the building of trust in the conduct of business. Similarly Thomas Kaney, former vice president of Smith Kline Beecham remarked, “to achieve deep-level change in large corporations, you need leadership at all levels that is both trusting and trustworthy” (cf. Shaw 1997). Regarding trust, Bennis and Nanus (1985, p. 153) state it is, “the emotional glue that binds followers and leaders together. The accumulation of trust is a measure of legitimacy of leadership. It cannot be mandated or purchased but needs to be earned. Trust is the basic ingredient of all organizations, the lubrication that maintains the organization.”

The critical role of leadership becomes clear when looking at the impact founders have on organizations for better and for worse. In the example of organization 1 the leader is credited with diffusing mistrust within the organization. At Hewlett Packard the founders Bill Hewlett and David Packard are credited with establishing a high trust culture. According to Packard (1995) the leaders created a set of practices and values that fostered high trust levels among employees and other stakeholders for over 50 years. In sharp contrast, Goodell (2002) argues that the leadership of Carly Fiorina has done much to ruin that trust within only a period of 5 years.

Fiorina’s tenure at HP was nothing short of a prolonged controversy. Her unpopularity at HP was amplified by her many decisions which some thought to be provoking. When she first started at HP, she removed the portraits of HP founders, William Hewlett and David Packard, from HP lobbies, and replaced them with her own. HP had long maintained an essentially no-layoff policy during the many years of following The HP Way, immortalized in the book of the same name by David Packard. She, however, saw this as decidedly "old-school", and accelerated lay-offs to increase profits. Then, while HP was undergoing massive layoffs, she approved the lease of two new Gulfstream jets, had HP pay to move her yacht from the East to the West coast, and took endless trips to socialize with Hollywood movie stars and
politicians, trips that could be justified as fortifying the benefits of one's political career, not those of shareholders and of HP.  

In that way employee and investors trust decreased rapidly, and was only rebuilt when Fiorina was finally ousted.

When Carly Fiorina left Hewlett-Packard, there was much rejoicing by employees and analysts alike. Since her departure, HP stock has risen 47% and employee confidence is back in force under the direction of Mark Hurd.

There are many more examples that demonstrate the relevance of leadership in the trust-building process within organizations. One of the most striking incidents I came across during my interviews was the case in which the founder of a high-tech company was ousted by a conspiracy and the main conspirator replaced him as CEO. This political play affected the atmosphere of trust within the company so negatively that employees resigned and went off to start competitor firms.

These examples underline that nothing undermines trust within an organization faster than a senior leader who is incompetent, unethical and uncaring (Shaw 1997). Leadership actions account for a very large part of the trust levels within and outside the organization, and corporate boards need to carefully select trustworthy leaders. In the following I will briefly outline aspects of leadership trust building and their impact on the dimensions of trust.

5.3.1.1 Competence

Bracey (2003) argues that senior leadership in organizations needs to understand the field in which they operate. In all types of organizations incompetent leadership will neither achieve trust nor attain satisfactory results. As inferred by my research, whatever the organization’s mission, its leadership needs to be competent managerially and technically. According to Hilb (2005) this does not mean that every leader has to be managerially and technically competent, but the leadership team as a whole does. Hence it is very important to combine relevant skill sets at the level of corporate boards (Hilb, 2005). Swift (2001) believes it is crucial to identify the different expectations of stakeholders in order to understand the necessary skills that need to be represented by top leadership.

5.3.1.2 Reliability

Galford and Drapeau (2003) argue that people often scrutinize leadership, its statements and its actions. Tschannen Moran (2004) posits leadership that announces one thing and does another is seen as untrustworthy. Former German Chancellor Konrad Adenauer is

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remembered for a statement that translates into, “What do I care about the stuff I said yesterday.” Many leaders follow that example, but are not aware that their long-term credibility is undermined. As evidenced above I encountered several situations during my interviews that led to loss of trust, especially regarding promises not to lay workers off. Leadership of organization 3 for example at one time promised that ‘no one will be laid off’ in an attempt to secure employees’ motivation. However, shortly afterward, people were let go. Similar situations were reported in other organizations as well and trust dwindled as a consequence.

Following Mishra and Spreitzer (1998) reliability does not mean consistency across all situations and all times; buffers and boundaries exist. Reliability means sticking to the core of the promise. In cases where external forces require deviation, trust can be saved with a transparent explanation of the causes (Lewis 1999).

5.3.1.3 Integrity

According to Welch (1992) unethical leaders often achieve very impressive results. The mafia is frequently cited as an example of a very successful organization in terms of results, but the mafia is not trusted. Ulrich (1998) and others argue that results need to be achieved in an ethical way. To be trusted, leadership must act with integrity and honor the ‘golden rule’ (Ulrich, 1998). Kouzes and Posner (1995) find that honesty is the single most important factor employees look for in leaders. As my own research shows, not only employees look for ethical leadership but clients, suppliers and society do as well. Beyond displaying personal integrity leaders are required to hold everybody in the organization to these standards (Shaw 1997). Leaders also need to ensure that the same values are lived across the board and with each stakeholder (Ulrich and Maak, 2000).

5.3.1.4 Transparency

Pugh, Skarlicki et al. (2003) suggest that cynicism in organizations is on the rise. Hidden agendas are suspected in most organizations. Following Lesmeister (1992) it is a prime requirement for leadership to communicate as much as possible, as soon as possible, and as clearly as possible. Leadership needs to provide authentic information in a timely fashion to all stakeholder groups affected. Simons (2002) argues that ‘spinning’ of the truth is quickly detected and leads to more mistrust.

5.3.1.5 Benevolence

Shaw (1997) argues that business environments are often not seen as a place of benevolence. Many interviewees compare their company to a ‘shark pit’, in which each needs to beware of the others. Lewis (1999) contends that leadership needs to be aware of these sentiments.
since they endanger trust and cooperation. Shaw (1997) posits that good leaders demonstrate true concern and care about employees and other stakeholders.

5.3.1.6 Identification

Many surveys (see Chapter 1) as well as the respondents in the interviews report low levels of identification with business leaders, who are viewed as money and power hungry. Rarely are business leaders named as role models (Gallup, 2005). If leaders want to instill trust in their stakeholders, value congruence needs to be achieved. Paine (2003) believes that this is a very tough challenge, but necessary to bridge the value gap.

5.3.1.7 Reputation

According to Fombrun and van Riel (2003) reputation levels strongly depend on the image of the CEO. The current discussion surrounding Deutsche Bank Chef Ackermann provides a case in point. Deutsche Bank is highly associated with its chief representative; his involvement in court litigation and his managerial decisions negatively affect the reputation of Deutsche Bank (Fischer, 2005). Fombrun and van Riel (2003) argue that corporate leadership and especially the supervisory board need to take this aspect into account if they wish to create a lasting reputation of trustworthiness.

5.3.1.8 Leadership dilemmas

Having demonstrated the positive effects of trust it seems very clear that leadership should strive to foster it. Simons (2002), however, argues that there are several dilemmas that hinder trust development and that need to be acknowledged.

5.3.1.8.1 Sticky labels

According to Simons (2002) the nature of trust is fragile; trust is slow to build and quick to dissipate. A generally straightforward top management that is caught breaking one important promise will have trouble recovering. Simons claims the labels of untrustworthiness are stickier than their reverse. It takes evidence of only a single lie for a manager to be branded a “liar.” In contrast, a person has to tell ‘a whole lot of truth’ to qualify as a “straight shooter.”

5.3.1.8.2 Competing stakeholders

According to Freeman (2002) managers, like politicians, deal with diverse stakeholder groups. They need to address them in different ways and a clash of words and actions is
almost inevitable, especially when people in one group receive a message intended for
another. Priorities expressed to two groups can differ, but are not necessarily incompatible.
Schumacher (2005) advocates a clear prioritization of goals as a central step to building
trust.

5.3.1.8.3 Shifting policies
Following Orgland (1995) competitive pressures make organizational change inevitable.
Periods of change are particularly threatening to organizational trust. Acceptance of new
strategies and methods can come at different speeds and with different intensity.
Communication and convincing arguments are necessary to defuse confusion and perceived
inconsistencies.

5.3.1.8.4 Changing fashions
Simons (2002) states that in the past decades a host of management techniques have seen the
light and many of them have been short-lived. Simons cites a 1994 study that revealed the
average U.S. company had committed itself to 11.8 of 25 currently popular management
tools and techniques. This rapid cycling through management fads creates cynical
stakeholders who have learned to be skeptical of organizations and their managers touting
new techniques. Simons (2002) claims that it is good for managers to explore and
experiment, but there is a cost to dabbling. A critical evaluation of new methods based on
conviction can help to defuse cynicism.

5.3.1.9 Conclusion
Leadership is one crucial leverage point for trust building in organizations. Building trust is
a paradoxical process. Shaw (1997) argues that leaders build trust by doing many
fundamental things right rather than by directly attempting to raise the level of trust. Being
aware of destructive behavior is necessary to successfully build trust. Leaders seeking to
effect trust need to be aware that building trust is not an input output management process.
Balancing different dimensions of trust is a very difficult management task and complexity
only increases when trust is managed across stakeholders. Trust management is an indirect
process that requires a host of soft skills. However, employing all the soft skills without
equally utilizing hard skills will not produce the desired results. When building high trust
organizations, leadership needs to keep in mind that trust, while being a key enabler is also
just that, an enabler. Trust is a means to achieving the ultimate goals of the organization.
Having high trust or blind trust is not a goal in itself. If trust were made a final goal it would
even be more destructive, since mistrust would increase.
5.3.2 Organizational architecture
Another leverage point to building trust is organizational design. In addition to leadership quality, organizational structures and processes play a critical role in supporting a high trust organization. According to Shaw (1997) formal approaches to building trust involve an organization’s objectives, structures and management processes.

5.3.2.1 Clear vision


5.3.2.2 Clear responsibilities

Lewis (1999) notes that agreements on mutually desired outcomes are essential. Schumacher (2005) asserts that once a vision has been identified and goals established, clear responsibilities need to be assigned. Trust is valuable because it keeps options open as to how a particular result is achieved. Trust requires a clear, not overly complicated agreement, about what each party will deliver in a given setting (Schumacher, 2005). In organization 1, short ‘responsibility profiles’ were established to clarify process ownerships.

5.3.2.3 High ownership structures

Employees closest to the customers and competitors often dispose of valuable information but only enjoy a small discretionary power (Sprenger, 2002). This organizational micromanagement is seen as a manifestation of mistrust. Mistrust engenders mistrust in a self-fulfilling manner (Ripperger, 1998). Building local authority and responsibility is a prime requirement to building trust and ensuring timely problem solving (Shaw, 1997; Lewis, 1999; Schumacher, 2005).

5.3.2.4 Aligned incentives

Many organizations preach the need for cooperation and innovation but incentives are often misaligned, leading to opportunistic behavior (Chenhall and Langfield-Smith, 2003). Pay-per-performance schemes often value short-term goals at the detriment of necessary long-
term investments. Many incentive schemes are based on extrinsic motivations such as payment increases. Osterloh and Frey (2000) argue that intrinsic motivations are ‘crowded out’ when incentive schemes are based on extrinsic stimuli. Incentive schemes based on extrinsic motivation negatively affect a ‘trust culture’. Osterloh and Frey (2000) think that simple compensation schemes based on fixed payments increase productivity when people are intrinsically motivated.

5.3.2.5  Rigorous selection

Trust is more likely when people with the requisite skills and right motivation staff an organization. A high trust organization requires superb talent and the right talent at each level (Shaw 1997). Selecting highly skilled and intrinsically motivated people ensures the basis for a trusting culture. Continual assessment and skill building ensure a high level of competence and integrity.

5.3.2.6  Knowledge exchange

Shaw (1997) argues that high trust organizations are information rich: people at all levels dispose of crucial information. To enable swift cooperation, all employees need access to relevant information to fulfill their responsibilities (Drucker, Garvin, Leonard, Straus and Brown, 1999). In low trust organizations information flow is very limited. Hence it is crucial to enable communication across all levels to ensure consistent knowledge exchange.

5.3.2.7  “Smart” controls

Hoehler (2002) calls trust the best form of control. Suggesting, however, that in high trust cultures no form of control is necessary is counterproductive. In reality, controls are more important in high trust settings than in low trust settings (Shaw 1997). ‘Smart’ controls safeguard against abuses that would ultimately undermine the reservoir of trust. Result-based checks and social pressure are often considered to be smart and effective controls that maintain and build trust (Ripperger, 1998).

5.3.2.8  Conclusion

In summary, clear goals, clear responsibilities, high ownership structures, and an aligned incentive system as well as a careful selection process, knowledge exchange and smart controls ensure a high trust culture. Organizational architecture is hence a key leverage point to create and maintain trust.
5.3.3 Organizational culture

People and processes need to be supported by philosophy. Formal structures need to be sustained by an organizational culture. Culture according to Shaw (1997) refers to the informal aspects of organizational life that have an impact on the performance of a group. The most important aspects are shared values, authenticity and forgiveness.

5.3.3.1 Shared values

According to Parkhe (1998) trust is more likely when people share a common set of principles and norms. In a time of shareholder capitalism many organizations agree on profit maximization as a shared goal. However, respondents in my interviews, for example, did not share that goal; in that sense profit maximization does not suffice as a shared value in trusting organizations. Collins and Porras (2002) argue that successful organizations follow higher goals, which are connected to service to society. In a way, however, shareholder capitalism seems to consistently substitute ‘shared values’ with ‘shareholder value’.

Bakke (2005), disillusioned by his former work experiences founded AES, now a multi-billion dollar energy organization. He asserts that the most crucial asset for a trusting organization is shared values. AES is thus organized around shared values, which include integrity, fairness, social responsibility and fun (Bakke, 2005).

The success story of Ebay provides another example of a business organized around core values. These values are:

- We believe people are basically good.
- We believe everyone has something to contribute.
- We believe that an honest, open environment can bring out the best in people.
- We recognize and respect everyone as a unique individual.
- We encourage you to treat others the way that you want to be treated.

There are other examples of organizations that achieve high trust cultures and many attribute their success to a clear set of shared values (see Craigslist, HP, Bodyshop).

5.3.3.2 Authenticity

For Collins and Porras (2002) shared values are a crucial success factor. In modern business organizations however cynicism rages and the value of values is questioned (Pugh et al., 2003). Values need to be lived and must not be exclusive to an ethical code (Ulrich and

35 http://pages.ebay.com/help/community/values.html
Maak, 2000). Since in many businesses the principle that matters most is profit maximization, it is crucial for high trust organizations to be authentic. Only in bad times are values actually tested. Stakeholders must genuinely feel that these values matter, otherwise trust decreases rapidly.

5.3.3.3 Forgiveness

Cameron (2003) argues that organizational forgiveness is critical to a learning culture. In today’s environment, people must take risks and try new approaches. In a business setting the ability to make decisions quickly and move forward with initiatives is key to sustaining trust (Krystek and Zumbrock, 1993). Learning on the job, making mistakes and learning from them is implicit to capacity building. Risk taking and experimentation require a forgiving environment (Shaw 1997).

5.3.3.4 Conclusion

In summary, shared values and the authenticity of these shared values are vital to achieving a culture of trust. Forgiveness is a basic element for any trust culture as well, since it allows for risk taking and learning. In brief, organizational culture is pivotal to building and maintaining trust.

5.3.4 Conclusion

The central leverage points for organizational trust are organizational leadership, organizational processes and organizational culture. The three P’s of organizational trust thus are: People, Processes and Philosophy. Corporate boards can influence the trust building process through the selection of trustworthy leaders and the promotion of role models. Boards can support the installation of trustworthy processes which in themselves reward trustworthiness. Boards can also influence a culture of trust by establishing symbols of trust and creating shared values that go beyond profit maximization.

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<thead>
<tr>
<th>People</th>
<th>select leaders with high intrinsic motivation</th>
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<tr>
<td></td>
<td>select trustworthy personnel</td>
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<td>promote the right role models</td>
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<td>Processes</td>
<td>install process that reward trustworthiness</td>
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<td></td>
<td>create fair and transparent processes</td>
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<td></td>
<td>review processes regularly on their impact on trust</td>
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<td>Philosophy</td>
<td>create culture of trust</td>
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<td></td>
<td>create trust symbols</td>
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<td>create vision beyond profit</td>
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Figure 18: Trust leverages
5.4 Stakeholder view
When building trust, forging relationships with different stakeholders is crucial (Shankar et al., 2002). Oftentimes organizations focus mainly on increasing employee or customer trust, but trusting relationships are relevant for all groups that have significant interaction with an organization. There are considerable spillover effects that affect trust in each stakeholder group. For example, even though Nike had a good standing with its customers, the reports of poor working conditions of suppliers affected the image of the organization as a whole and employee and customer trust declined (Boje, 1998). It is thus necessary to take all relevant stakeholders into account, when seeking to build sustainable trust.

5.4.1 Building familiarity across levels and stakeholder groups
Luhmann (2000) argues that familiarity is a basic requirement for trust to develop. Handy (1994) notes that you cannot trust those you don’t see. In most cases trust requires some perceived or real access to others, which allows us to determine whether we have a common agenda and shared values and norms (Shaw 1997, p.145). Familiarity also allows us to judge whether others are capable of and willing to deliver results and how much they are concerned about the well-being of others.
To ensure familiarity companies such as ABB, Mondragon or Gore, organized themselves in very small units (Nerge, 1997; Gladwell, 2002). In that way contact among employees is ensured and clients and suppliers know who they are dealing with. The psychological argument is that groups of more than 150 members break apart, since contact cannot be upheld (Gladwell, 2002). In contrast large organizations are often less trusted because they lack accessibility, and are perceived as anonymous and bureaucratic (Sztompka, 1995).

5.4.2 Building trust across stakeholders
Dervitsiotis (2003) proposes three steps for building trust across stakeholders: 1) building quality relationships, 2) developing effective exploration methods of future possibilities, and 3) developing effective coordination for implementation.
Many organizations already have processes in place to build and maintain trust with stakeholders. In the following I will briefly detail some of these mechanisms and related potential problems.

5.4.2.1 Employees

In many organizations human resource departments are in charge of organizing personnel related problems, from selection to evaluation, appraisal and development (Hilb, 2004). These activities are very important; however, trust cannot be built by such actions alone. Leadership, processes and culture of the organization need to reflect core principles of trust (Reina and Reina, 1999). A key dimension for employee trust is identification or value congruence (see Chapter 4 results). Role models are essential for employees to build trust in
an organization. A former management consultant states that he changed organizations because he did not find suitable role models within. All the people he admired eventually left the organization.

RESPONDENT [talking about employees of the new organization]: I could identify with them as role models. At [organization 3] there are perfect role models as well, but these people also leave. People normally staying at organization 3 are only driven by their own [utility]…These [other] people I adore because they have a mission beyond their salary.

An investment banker I interviewed followed his former boss to another much less reputed organization, just because he trusted him and valued his personal integrity.

RESPONDENT: My change was very person-related. John [the manager] did all his business with a handshake. His handshake counts, I can rely on him, this counts more than a contract. I know him, he is consistent I can rely on him. … In my old workplace the manager was sleazy, … I didn’t share his personal values.

The investment banker complained about the lack of personal role models in his former firm; values and integrity were lacking in his old institution. These examples demonstrate that employees value organizations that share their personal values, but often this is not the case.

A major trust test for organizations are periods of reorganization. In turnover times layoffs are often necessary. Mishra and Spreitzer (1998) found that depending on the fairness of the procedure and the level of communication, trust of both ‘survivors’ and people laid off can be maintained and increased in the long run.

5.4.2.2 Clients

Many organizations use Customer Relationship Management (CRM) programs to increase customer loyalty. Histories of previous interactions with customers are fed into a database and different actions planned to increase customer satisfaction. Often these programs help to detect important issues that need to be solved to increase customer satisfaction. As Dervitsiotis (2003) argues satisfaction may not be enough to build a trusting relationship. According to findings from my survey, technical competence is a main driver of client trust, but integrity and value congruence are crucial for customer retention as well. Dervitsiotis (2003) argues that a customer can be perfectly satisfied with the product or the service (for example gas at a Shell station). Nevertheless, the customer can still mistrust the organization because he does not share its values at large.

A main test of trust in an organization on the client side are defective products or service flaws. A customer of a telephone company reported repeated overcharges. He called the company several times to have the charges removed. The company promised to do so but never did. As a consequence the customer switched phone companies.
RESPONDENT: For example, this was … with … my cell phone company, I think it was AT&T, … I think I got overcharged once, by quite a lot. And … I knew it wasn’t me. Right? And I called. And, and the customer support person would say, okay, they’ll just take that off my bill. And then, I think two or three weeks later, I checked my bill again, and it’s still there. So, I had to call again. And that was really disappointing.

INTERVIEWER: and what did you feel toward AT&T, …?

RESPONDENT: … I would terminate the contract with them and … pick some other

INTERVIEWER: You will, are you sure?:

RESPONDENT: I did:

INTERVIEWER: Oh you did.

A similar case is reported by a customer of a cable company who was misled by advertising and also overcharged. She reported these problems, and the company promised to look into the issue and get back to her, but never removed the charges. In this case the customer was dependent on the provider, because of its monopoly position, but she reported deep mistrust.

RESPONDENT: I’ll tell you who I trust least of all.

INTERVIEWER: right.

RESPONDENT: Verizon. They have the shabbiest advertising. And they always advertise like it’s gonna cost you this much, and .. if you consolidate your billing, you’ll save X amount. And then you try and consolidate your billing, and they make mistakes. They charge you extra money, and then it just turns out not to be a saving at all. And… they, they advertise tings like, only… $19.95 a month. Well, the fine print is, for the first year, if you sign up on tuesday, or to, then to . . . Really misleading advertising…. first of all, it, it was difficult to communicate with them, because, they put something on the bill, and we challenged it, and they said, ‘we’ll check it out.’ And they didn’t check it out. And I finally called ‘em, and they said, ‘okay, we’ll take it off,’ and they never took it off. … Sixty dollars I think . … . We paid and… we screamed and yelled at them, and we finally just gave up because . . . It was … consuming our lives.

Customers report very low trust in organizations that do not react swiftly to their demands when a product or service is flawed. This however does not mean that customers are unforgiving, to the contrary. Customer trust is built, if an organization deals proactively with the issues reported. Dervitsiotis (2003) reports the example of HP, which even though it performed no better in late deliveries than other suppliers, was rated very high by clients because of the outstanding job of handling delivery delays. This involved effective
communications to keep the customers informed as to what was being done to minimize the delays. This type of responsive ‘conversation’ with customers was understood as proof of serious commitment to making things right (Stata, 1995).

5.4.2.3 Suppliers

Many organizations work with selected suppliers that enjoy the special status of ‘trusted provider’. Partnership commitments, joint ventures or even strategic alliances are common in today’s business world. The key issues for building trust in these partnerships, according to the literature (see e.g. Parkhe, 1998) and my own findings are integrity and managerial competence. Suppliers carefully selected their partners and conduct a due diligence process similar to investors (Vauthey, 2006). They value managerial competence especially when they consider their commitment as substantial and upstart investments need to be recouped over a longer period of time. If a selected partner would go bankrupt, all would be lost. Suppliers with less substantial commitment still valued managerial competence but regarded integrity as more crucial. Integrity for many suppliers manifested itself in payment practices.

RESPONDENT: [Honesty] this is what counts in professional life. Then it works, but the number of people cherishing that has not gone up…the number of firms employing collection agencies has only increased.

Suppliers complain about a growing unwillingness to pay on behalf of the client organization. In fact the usage of collection agencies has increased36 and many suppliers suspect that clients speculate on the bankruptcy of the creditor, so they can default on the payment. One supplier recounts:

A friend of mine, [laughs], he solved the problem of bad payment rates when he bought a waste management firm. He says it is a good business because ‘I can build up pressure’. If clients do not pay and there is no more space, it is going to smell like hell... People take a long time to pay bills. VW is the worst payer. They wait for about 12 months to pay the bill. One should think this is part of their operation. They want to wait and you know maybe they[suppliers] will forget or go bankrupt..

Trusting one’s suppliers is mainly based on managerial competence that ensures longevity of the partnership and integrity, which is demonstrated by fair repayment of bills. Another important step in creating a trusting relationship with a supplier is the quality of the negotiation leading to the contract, the fairness of the contract itself and the experience of how the spirit of the contract is lived up to in daily life (Sahay, 2003; Tyler, 2003).

36 http://www.bdiu.de/wissenswertes/wissen_verband.html#anchor5
5.4.2.4 Investors

After the recent spate of corporate scandals ‘corporate governance’ became an institutional tool to regain trust in the investor community. Most publicly listed organizations and private companies currently comply with one corporate governance code or another to meet market requirements. Whole departments are now involved in creating reports for investors, but investors are often skeptical of these reports. One private investor argued that all organizations from Enron to Worldcom and Parmalat presented perfect reports and complied with the regulatory requirements, just as organizations still do, and who is to say that now the numbers are right?

RESPONDENT: These reports can tell you whatever, right? You know, if I invest I don’t look at the annual reports. I try to find organizations that I identify with, that I know a bit about myself, and I might talk with a banker about it…

Institutional investors seem more confident and hope that the shock of the scandals leads to more honesty in reporting.

RESPONDENT: The reporting is more transparent, less mixed and profits are now clearly stated. Companies have learnt their lesson, less offshore, clearer reporting on executive stock options etc.. Regulation FD [financial disclosure] reduces the information advantages, exclusive information is not possible anymore... shady practices have decreased.

For investors transparency is a key issue, but identification with the values of an organization and integrity seem to be equally important. Especially for business angels and venture capitalists value congruence is often cited as key to investing, along with perceptions of managerial and technical competence.

RESPONDENT: ..You want to verify the moral fiber of the leadership. You talk with the founders and with the shareholder community or the managing directors very intensely.

The important questions to investors are: Will leadership tell me everything I need to know? Will they tell me the bad side of the story as well?

RESPONDENT: Honesty... when the ‘shit hits the fan’ I want to know. Will they tell me? I want to know from them and not via the newspapers. I want to know everything that is relevant, like in a family…

One business angel said that he trusted a business leader more, after he cautioned positive results by saying that there was a potentially negative consequence.
RESPONDENT: I cherish open communication. In one case the founder presented new numbers, and one of my investment colleagues jumped in and said, ‘Oh yeah I am already sold’, and then the founder said, wait one second until you have heard all the downsides to this…. As investor I want to know everything the good and the bad, to be able to take a long-term decision.

The same investor also stated that value congruence is very critical to the investment decision. This sentiment was even shared by the institutional investor, even though he maintained that decisions are still largely calculated on a factual basis. For venture capitalists, however, value congruence seems an important factor for the investment decision.

RESPONDENT: There are situations in which you have the feeling that you should invest, just based on the numbers. Still there is the feeling not to invest, since values do not match or ... because the chemistry is not right. The reverse case has also occurred to me already. The opportunity did not look attractive, from a purely economic standpoint, but the team was right, the values matched and you want to promote this cause and you wish it to be successful, even if you are doubtful yourself. Personal causes do matter more in these cases than money, but I think that it is a human condition to connect everything you do with the question of purpose. It is indeed fulfilling, when you can say this makes sense…

Hence transparency, integrity, value congruence and competence are key building blocks for investor trust.

5.4.2.5 Society

Many organizations feel the value shift of societal stakeholders and have responded to the call for responsibility with the creation of Corporate Social Responsibility or Corporate Citizenship (Sharp Paine, 2003; Werther and Chandler, 2005). These concepts support corporations’ drive to regain trust by fulfilling societal responsibilities. Many citizens acknowledge the effort of companies to ‘do good’, but are very skeptical about these efforts, since ‘it is done as long as it increases profits’ (Fjell, 2000). In general, cynicism is high and motivations are questioned (Cocheo, 2004). The discussion about managers raiding companies and harming society is a serious challenge to current shareholder capitalism (Rudel, 2006). Identification and value congruence add an important dimension to regaining trust within society. The main question that needs to be answered is how authentic are the efforts to demonstrate responsibility?

In addition, another trust risk lies in all activities a company performs that can harm the environment and the community. A pharmaceutical company that conceals the danger of a
new drug (see Vioxx scandal\(^{37}\)) as well as an oil producer that covers up oil spills (see Shell in Nigeria\(^{38}\)) reduce trust. Accidents can always happen, but the quality of crisis management can decide if trust is lost or even increased as was demonstrated by Johnson and Johnson in the case of the Tylenol poisonings (Kaplan, 1998). In general, authentic benevolence and value congruence along with managerial competency are the building blocks for societal trust.

5.4.3 Conclusion
In conclusion, stakeholder trust is based on different notions. When managing trust these differences should be noted and critical factors acknowledged. The key dimensions of trust, the main leverage points as well as the main risks and the risk buffers are noted in Table 34. Current mechanisms to build and influence trust need to be extended by the relevant dimensions and can be reviewed based on their trust creating impact. Actions to increase stakeholder trust should aim at the creation of risk buffers.

Table 34: Aspects of stakeholder trust management

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Employees</th>
<th>Customers</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Dimension</td>
<td>identification</td>
<td>competence</td>
<td>integrity</td>
<td>transparency</td>
<td>benevolence</td>
</tr>
<tr>
<td>Relevant Dimensions</td>
<td>identification</td>
<td>reliability</td>
<td>benevolence</td>
<td>integrity</td>
<td>technical competence</td>
</tr>
<tr>
<td>(identified in survey)</td>
<td>identification</td>
<td>technical competence</td>
<td>identification</td>
<td>integrity</td>
<td>and</td>
</tr>
<tr>
<td>Main Trust Leverage</td>
<td>role models</td>
<td>product service quality</td>
<td>fair contracts, timely payment</td>
<td>results</td>
<td>effects on society</td>
</tr>
<tr>
<td>Current Trust Building Activities</td>
<td>Human Resource Management</td>
<td>Customer Relationship Management</td>
<td>Joint venture/ Strategic Alliance management; Supply Chain Management</td>
<td>Corporate Governance; Investor relations</td>
<td>Corporate Social Responsibility, Corporate Citizenship</td>
</tr>
<tr>
<td>Main Problem</td>
<td>viewed as strategic means to an end</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Risks</td>
<td>layoffs</td>
<td>product/service flaws</td>
<td>contract breaches; payment default</td>
<td>Opacity; cover ups; negative results</td>
<td>accidents</td>
</tr>
<tr>
<td>Risk Buffers</td>
<td>authentic communication; fair and open procedures</td>
<td>swift response and good will</td>
<td>fair negotiations; fulfilling promises</td>
<td>timely communication; action plan</td>
<td>timely communication; crisis prevention processes</td>
</tr>
</tbody>
</table>


\(^{38}\) http://www.africaaction.org/docs01/shel0107.htm
5.5 Conclusion

It has been said that organizational trust comes on foot but leaves on horseback. It is much easier to destroy trust than to build it. Nevertheless, it is possible and necessary. In this section I identified common hazards to trust, and demonstrated how they can be countered. I also listed the different leverage points for organizational trust: leadership, processes, and culture. I also analyzed the differences in building stakeholder trust, which can provide a basis for sustainable trust-building process.

In general it is important to note that efforts to increase trust should not end in a blind, faith based type of trust (Parkhe and Miller, 2000). As Wicks, Berman and Jones (1999, p. 99) argue the structure of optimal trust is ‘a mixture of trust and distrust.’ The optimal structure of trust exists “when one creates (and maintains) prudent economic relationships biased by a willingness to trust"(p.103). My findings indicate however, that profit-maximizing oriented organizations will always have more trouble building trust than organizations that incorporate social and economic goals. Examples for organizations that successfully combine social and economic goals include National Public Radio (NPR), Mondragon, Migros or Gore, the Body Shop or ASHOKA.

Building trust is possible, however, the current mindset within business does not seem to support the trust building process enough. A change of mindset and an alteration of economic philosophy from one of ‘opportunism’ to one of ‘integrity’ seem necessary.
6 Integrated Stakeholder Trust Management and Corporate Governance

So far we have seen that trust is important as a key enabler of cooperation (Chapters 1 and 3), that it can be measured (Chapter 4), and that there are ways to increase and build trust (Chapter 5). In this section I incorporate these findings and present an integrated stakeholder trust management framework (ISTMAF). This framework supports management and corporate boards’ monitoring of stakeholder trust levels, and initiates actions to build trust in a sustainable way.

ISTMAF consists of two basic components. The first, the trust monitor, measures trust levels of stakeholders across the organization. The second component entitled trust enabler allows boards to systematically understand current hazards to trust, conceive actions to build trust, and evaluate alternative decisions’ impact on stakeholder trust. In the medium and long term, ISTMAF aims to bridge the trust gap organizations now face.

6.1 Trust monitor

According to Davies (2002) only ‘what gets measured gets managed’. The trust monitor heeding that idea, visualizes what otherwise would fall through the cracks of management’s attention. It should be stated, however, that because trust is such a complex issue any trust measurement can only be an approximation. The trust measurement proposed should thus be treated as a proxy.

The trust monitor measures organizational trust following the components identified in Chapter 4, namely: competence, reliability, integrity, transparency, benevolence, and identification as well as reputation can also be included to flesh out a fuller picture. These dimensions can be measured with the items tested in the organizational trust survey. As demonstrated in Chapter 4 these questions can be asked across stakeholders, but an adaptation towards specific stakeholder expectations might make sense. Nonetheless, the questions used in the survey provide a valid starting point.

6.1.1 Approach

As a first step to measuring stakeholder trust, the relevant stakeholders have to be identified. In a second step the survey is administered and in a third step the organizational trust profile (OTP) created. Figure 19 provides an example of a generic organizational trust profile (OTP).

The OTP allows corporate boards and top management to identify the levels of organizational trust they currently possess. Trust levels are visualized on an aggregated
organizational level and aggregated stakeholder level. In addition, the value of each trust dimension is indicated on organizational and stakeholder levels.

<table>
<thead>
<tr>
<th>Organization XX</th>
<th>Client/Customer</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Society</th>
<th>Stakeholder XX</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Competence</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Man. Comp.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Tech. Comp.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Integrity</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Transparency</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Openness</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 19: Generic organizational trust profile (OTP)

6.1.1.1 Stakeholder trust level

After the data have been collected the compound value of the trust levels of each stakeholder group is calculated. For pragmatic reasons I propose the summation of response values divided by the number of items used. The values serve as a comparative basis across stakeholders.

6.1.1.2 Stakeholder trust dimension levels

In a second step, the levels of each trust dimension are calculated for each stakeholder group so that a stakeholder trust profile emerges. Again, for pragmatic reasons I propose the summation of response values divided by the number of items used per construct. These values can serve as a basis for the evaluation of problematic areas within each stakeholder group.

6.1.1.3 Organizational dimension levels

In a third step, organizational trust levels per dimension are calculated by adding all stakeholder dimension values. For pragmatic reasons I propose dividing the summated value by the number of stakeholder groups surveyed. It is conceivable to conduct a weighting according to either the number of respondents or the a priori determined importance of a stakeholder group. In light of stakeholder management, this might skew results towards one stakeholder group, which is not intended. The aggregated dimension values enable an organization to check where overall organizational trust problems lie.
6.1.1.4 Organizational trust account

Compounding all values of the stakeholder trust accounts yields information on the general level of organizational trust the organization experiences. This can serve as a benchmark comparison value across not only different organizations in the sector, but also across sectors. For simplicity I propose weighing all stakeholder trust accounts equally, even though the number of responses might differ.

6.1.1.5 Interviews as additional background information

In addition to the OTP, the trust monitor includes a set of interviews conducted with sample stakeholders. Interviews focus on three areas: the past, the current state, and the future prospects of the relationship. The interview focuses on reasons a stakeholder has entered into a relationship with the organization to determine the level of trust involved. It queries current evaluations of the organization along the different trust dimensions to support the interpretation of the OTP values. Finally the interview helps to determine consequences of current trust levels by probing the interviewees’ assessments of the future relationship. Insights gleaned from the interview complement the survey findings and increase management’s understanding of the current trust standing the organization experiences.

In the following I will use the data from the four organizations surveyed combined with the finding from the interviews to demonstrate applications of the trust monitor.
6.1.2 Trust monitor example: organization 1

As described, organization 1 is a small manufacturing firm in the construction sector operating regionally out of central Switzerland. The overall trust level enjoyed by the company is at 3.78 on a scale from 1 to 5, with 5 being high trust, 3 being neutral, and 1 being high mistrust. This level of trust signals lower to medium levels of organizational trust. Among the four organizations, the 3.78 level was the second highest level measured\(^\text{39}\), only the university enjoyed a slightly higher trust level.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Client/Customer</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>3.84</td>
<td>3.87</td>
<td>3.72</td>
<td>3.89</td>
<td>3.57</td>
</tr>
<tr>
<td>Man. Comp.</td>
<td>4.09</td>
<td>4.16</td>
<td>4.09</td>
<td>3.25</td>
<td>3.75</td>
</tr>
<tr>
<td>Tech. Comp.</td>
<td>4.09</td>
<td>4.03</td>
<td>4.07</td>
<td>4.25</td>
<td>3.75</td>
</tr>
<tr>
<td>Reliability</td>
<td>3.79</td>
<td>3.70</td>
<td>3.66</td>
<td>4.06</td>
<td>3.75</td>
</tr>
<tr>
<td>Integrity</td>
<td>4.09</td>
<td>3.88</td>
<td>3.82</td>
<td>4.06</td>
<td>3.75</td>
</tr>
<tr>
<td>Transparency</td>
<td>3.73</td>
<td>3.62</td>
<td>3.43</td>
<td>3.81</td>
<td>3.25</td>
</tr>
<tr>
<td>Benevolence</td>
<td>3.85</td>
<td>3.83</td>
<td>3.74</td>
<td>4.06</td>
<td>3.00</td>
</tr>
<tr>
<td>Identification</td>
<td>3.22</td>
<td>4.05</td>
<td>3.44</td>
<td>3.92</td>
<td>3.33</td>
</tr>
<tr>
<td>Reputation</td>
<td>3.85</td>
<td>3.70</td>
<td>3.53</td>
<td>3.67</td>
<td>4.00</td>
</tr>
<tr>
<td>N</td>
<td>23</td>
<td>43</td>
<td>22</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

Figure 20: Trust profile organization 1

6.1.2.1 Stakeholder trust accounts

High evaluation by clients and investors mainly drive overall organizational trust levels. Suppliers and society experience the lowest levels. The relevance of the societal account with N=1 can be seriously questioned; however, for demonstration purposes, it is included. Employees experience a level of trust a bit above the level of overall organizational trust.

6.1.2.2 Organizational trust dimension levels

High technical competence and integrity mainly drive the overall trust level the organization enjoys. Identification and transparency are the lowest dimensions. Reliability is estimated at a similar level as the overall organization. Managerial competence is also evaluated comparatively high, but less than technical competence, which is an interesting finding.

6.1.2.3 Stakeholder dimension levels

For *investors* it is interesting to see that technical competence, reliability, and integrity have the highest values, whereas managerial competence and transparency drive the level of trust

\(^\text{39}\) If the overall trust index is weighed by the number of answers received, Organization 1 is even the most trusted. I deliberately weighed all stakeholders equally, just to demonstrate the sensitivity of measurement. Again, this monitor is more useful as a detector for the own organization rather than as a cross organizational comparison, for which it needs adaptation.
down. Especially the perception of low managerial competence is striking. For suppliers, competence dimensions are evaluated very highly but transparency and reliability are looked at much less.

Employees also place the competence levels of the organization very high but transparency and reliability rather low. Managerial competence here is seen as very high, which is a striking difference to what investors perceive. Customers value competence and integrity highly, but do not identify with the organization and view reliability and transparency as low. These results should be a first hint at potential for improvement of organizational trust levels. Especially with transparency, this seems to be an issue.

6.1.2.4 Qualitative results

Interviews conducted with four employees corroborate the survey’s findings. Reliability is seen as an issue for clients as well as for employees. Transparency especially seems to be a problem for employees, who miss open communication with management. The company has acknowledged these problems and has since instated a regular meeting and information schedule, which is supposed to alleviate the problem of transparency.

The interviews also support evidence that technical competence is judged very highly, and that price and value of products offered are very good, compared to other competitors.

6.1.3 Trust monitor example: organization 2

Organization 2 has the lowest trust values of all organizations surveyed. The overall organizational trust level is at 2.78. This means that organization 2 has negative trust values. The organization is slightly mistrusted. It is therefore an example of a low trust organization.

<table>
<thead>
<tr>
<th>Organization 2</th>
<th>Client/Customers</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>2.61</td>
<td>3.29</td>
<td>2.85</td>
<td>2.66</td>
<td>2.60</td>
</tr>
<tr>
<td>Man. Comp.</td>
<td>2.42</td>
<td>3.19</td>
<td>2.62</td>
<td>2.59</td>
<td>2.38</td>
</tr>
<tr>
<td>Tech. Comp.</td>
<td>2.96</td>
<td><strong>3.94</strong></td>
<td>3.37</td>
<td>3.00</td>
<td>3.13</td>
</tr>
<tr>
<td>Reliability</td>
<td>2.59</td>
<td>3.33</td>
<td>2.86</td>
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<td>2.69</td>
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<td>2.97</td>
<td>2.78</td>
<td>2.85</td>
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<td>Transparency</td>
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<td>2.63</td>
<td><strong>2.90</strong></td>
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<td>Benevolence</td>
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<td>2.76</td>
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<td>Identification</td>
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<td><strong>3.58</strong></td>
<td>2.75</td>
<td>2.41</td>
<td>2.45</td>
</tr>
<tr>
<td>Reputation</td>
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<td>2.47</td>
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<td>2.38</td>
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</tr>
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<td>512</td>
<td>153</td>
<td>115</td>
<td>40</td>
<td>56</td>
</tr>
</tbody>
</table>

Figure 21: Trust profile organization 2

6.1.3.1 Stakeholder trust accounts

The only stakeholder group that has positive trust levels toward the organization is the group of employees. All other groups view the organization negatively, especially clients. Investors, or potential investors and suppliers view the organization negatively, which should cause concern.
6.1.3.2 Organizational dimension levels

Almost all dimensions of organizational trust are judged negatively. Only technical competence is seen as slightly positive. The lowest values are received for reputation, managerial competence, and transparency and the highest levels for technical competence and integrity. The low level of all dimensions, especially that of managerial competence, should be of utmost concern to the organization.

6.1.3.3 Stakeholder trust dimension levels

It is interesting to see that transparency is judged low across all stakeholders, even employees do not view it positively. In contrast, benevolence is viewed higher by employees than for any other stakeholder group. The highest value the organization enjoys is in the area of technical competence and integrity with *employees*. The lowest level is experienced by *clients* in the area of reputation.

6.1.3.4 Qualitative results

Interviews with six customers and two employees support the above findings. Clients argue that the organization lacks reliability. They do not trust the company because the services are very often delayed. Employees seem to identify more strongly with the company and its goals but feel that there is much progress to be made. Similar studies, such as reputation analyses, corroborate these findings. The company is going through heavy restructuring and complaints about its reliability are commonplace. Some employees even decided to quit the company since it failed to deliver the necessary basis for trust.

6.1.4 Trust monitor example: organization 3

Organization 3 encompasses the Austrian, Swiss and German branches of an international consulting group. The overall level of trust of the organization is at 3.64, which is a middle range value in the cross-case sample, but signals lower levels of organizational trust.

![](image)

**Figure 22: Trust profile organization 3**

160
6.1.4.1 Stakeholder trust accounts

Self-declared suppliers experience the highest level of trust towards the organization. These might be representatives of firms cooperating with the consulting group or freelancers. Investors also value the organization highly. In sharp contrast, clients of the consulting firm do not trust the company very much. Their value is the lowest of all stakeholder groups. Alumni also do not rate their trust in the organization at a very high level. Employees take on a middle range value, but interestingly suppliers and investors trust the organization far more than employees do.

6.1.4.2 Organizational trust dimensions

The competence aspects of the organization are judged very highly and it appears that the level of competence is mainly responsible for the level of trust in the organization. The perceived competence levels (on both dimensions of competence) seem to be far higher than levels of any other dimension. The transparency and benevolence levels, for example, are evaluated rather low. And even reliability and integrity values remain below the organizational trust mean.

6.1.4.3 Stakeholder trust dimension levels

*Employees* and suppliers evaluate the technical competence of the organization at a very high level, even above that of the managerial competence level. *Investors* evaluate the managerial competence level especially high, while also appreciating the firm’s technical competence. *Alumni* similarly evaluate the competence levels highly. *Clients* evaluate the managerial competence the highest, even higher than technical competence. Remarkably, *clients* evaluate the competence levels at a much lower level than all other groups. *Clients* also cite major concerns with benevolence, transparency, and integrity, and find it difficult to identify with the values of the organization. All four categories are judged negatively (3 is the neutral value).

*Employees* rank transparency to be the lowest followed by benevolence. In comparison, integrity and reliability levels are relatively high. *Alumni*, who constitute an important group for the organization rate benevolence levels as rather low. Reliability remains ranked overall at third, but still below the organizational trust level. *Investors* view the organization as rather reliable, but levels of benevolence and transparency are also judged to be the lowest. *Suppliers* view the competence levels and integrity of the organization the highest, which is a unique ranking concerning integrity (results might be skewed due to low sample size). *Society* views levels of benevolence and integrity rather low, whereas competence and reliability receive relatively high evaluation.
In summary organization 3 enjoys a medium level of trust. This trust seems to be mainly driven by the competence levels of the organization. Levels of benevolence and transparency are rather low and, clients report especially low levels of trust.

6.1.4.4 Qualitative results

Interviews with employees and clients as well as with investors show findings supportive of the survey. Clients view the organization as mainly money driven, and accepted that they hired the firm for its professional expertise. In fact, the representatives of the company were facing high levels of mistrust when entering client’ organizations. Reasons for the level of mistrust vary. Often clients assumed that its leadership was playing a strategic and political game using the consultants. Another reason for low trustworthiness was the profit-oriented nature of the company.

Many employees rated organizational benevolence low since they felt they were in a strategic game - a deal they made when entering the company. Benevolence was not really expected but monetary benefits were positively acknowledged. However, some employees said that these monetary incentives undermined their trust, since they believed the company would not trust their motivation without such incentives.

Investors trusted the organization since investing delivered nice payoffs. Reliability seemed to be a given because so far promises in this regard were fulfilled.

Alumni often valued the experience they had obtained at the company, especially enhancement of their skills. Competence levels were considered high, but overall the organization was not viewed as a place to stay. For some interviewees a reason for leaving was the low level of identification with the company. Oftentimes the profit maximization goal was mentioned as being an obstacle to identification with the company. Others left because better opportunities for professional development arose.

6.1.5 Trust monitor example: organization 4

Organization 4 is a public university based in Switzerland. Compared to all other institutions surveyed, the university enjoyed the highest levels of trust overall. This result can be attributed to several causes. Some see Switzerland as high-trust culture; others argue that the character of a public institution plays a major role in the evaluation. The stakeholder set is different from other organizations but as demonstrated in Chapter 4 the measurement also holds for this organization and its respective stakeholder framework. Employees have been separated into researchers and administrative staff.

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40 It is interesting to note that the second highest trusted organization in this sample is also based in Switzerland.
6.1.5.1 Stakeholder trust accounts

All stakeholders highly trust the organization. *Partnering businesses* place the highest trust in the university. *Students* and *employees* (especially research employees) have the lowest trust. *Alumni* and *society* range in the middle, but beyond the organizational mean.

6.1.5.2 Organizational trust dimensions

Technical competence and reputation are the highest scoring dimensions for organization 4. Benevolence, transparency and identification are evaluated low, with transparency being the lowest. Reliability and integrity are evaluated above the organizational level of trust.

6.1.5.3 Stakeholder trust dimension levels

Overall stakeholders of organization 4 hold a similar pattern. They evaluate competence levels and reputation the highest, benevolence and transparency the lowest, with reliability and integrity placed in the middle. *Employees* and *students* experience the lowest levels overall with regard to transparency. *Society* experiences very low values with identification. Technical and managerial competences are viewed very high and at similar levels across all stakeholders. It is interesting that *research employees* value managerial competence higher than technical competence, while the reverse is true for *administrative employees*. *Businesses* value the integrity of the organization, and stakeholders have a homogenous pattern of perceptions, even though the levels differ slightly from each other.

6.1.5.4 Conclusion

In conclusion it can be said that the university enjoys high trust among all stakeholders. Transparency seems to warrant improvement though.

6.1.5.5 Qualitative results

The interviews conducted supported the quantitative results but highlighted the importance of a difference in values and organizational goals. Compared with companies the university
was viewed as more benevolent since its purposes are educational and it is a public institution that does not have to serve any stakeholder in particular. Curiously, the trust levels might have been higher but many interviewees, especially those in society, claimed they could not identify with the mission of the university to educate business leaders. Profit maximization and avarice were attributes interviewees attached to the organization when low trustworthiness was reported. However, a majority of respondents viewed the university more positively than other business organizations.

6.1.6 Cross-case analysis

According to the trust monitor Organization 2 is an example of a low-trust organization. It scores low with almost any stakeholder on every dimension of trust. Organization 1 partly fulfills the criteria of a high trust organization but suffers from a lack of transparency and insufficient communication. In addition, clients view reliability of organization 1 as a problem while employees view benevolence as an area for improvement. Organization 4, similar to organization 1, is highly trusted in many aspects, but suffers from low values on transparency and benevolence. The interesting difference between the two is that organization 4 has similar trust patterns across all stakeholders, while in organization 1, investors have a distinct pattern. In organization 2 employees are outliers and in organization 3 clients are far more negative than other stakeholders. The homogeneity of organization 4 could be attributed to the fact that a public university in Switzerland is required to fulfill needs of many different stakeholders in society, including students or researchers, while business organizations usually focus on investors. The effect of the shareholder philosophy is obvious in organization 3, but organization 1 also demonstrates similar patterns.

While many more conclusions can be drawn from the data presented in this chapter, I mainly wanted to demonstrate the potential of the trust monitor. The OTP based on the survey items combined with in-depth interviews are a valid starting point for evaluating organizational trust measurement.

6.1.7 Limitations

As demonstrated, trust levels can be quite different across organizations, even though real values mostly vary between 3 and 4. The response scale of 1 to 5 is such that values do not discriminate very much. Who can say that 3.79 is better than 3.75 for example? One approach could be to widen the response scale so as to discriminate better.

For interpretation of the results and especially for cross-case comparisons, cultural aspects, sectoral factors, and industry environment play a role. In general it is difficult to compare cases across national cultures; however, Germany and Switzerland are both considered to be
high trust cultures (see Fukuyama 1995). One sector could be inherently competitive while in another industry, for example defense or construction services, government regulation requires certain behavior.

6.1.8 Conclusion

The trust monitor is designed to help boards acquire some sense of the notion of trust and the levels of trust the organization enjoys with its relevant stakeholders. I recommend the trust monitor as the first component of the Integrated Stakeholder Trust Management Framework (ISTMAF), but caution the interpretation of data especially across cultures and industries, where more research is needed.
6.2 Trust Enabler

The second component of the Integrated Stakeholder Trust Management Framework (ISTMAF) is the trust enabler. While simply discussing the results of the trust monitor can spur discussion and actions that lead to positive change, the trust enabler component systematizes the trust-building approach for organizations. The trust enabler consists of four subcomponents: the trust hazard detector, the trust action generator, the trust decision reflector and the trust crisis preventor.

6.2.1 Trust hazard detector

The first step in trust building is to detect the weak and strong points of the organization. The trust hazard detector builds on the information provided by the OTP and uses a ‘traffic light’ system to indicate which areas need most improvement; low trust levels are shown in red, medium levels in yellow and acceptable levels in green. Using organization 3 as an example, the OTP signals weak spots with clients in the dimensions of integrity, transparency, benevolence and identification.

<table>
<thead>
<tr>
<th>Organization 3</th>
<th>Client/Customers</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Alumni</th>
<th>Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>3.04</td>
<td>3.78</td>
<td>4.21</td>
<td>3.80</td>
<td>3.51</td>
<td>3.51</td>
</tr>
<tr>
<td>Man. Comp.</td>
<td>3.64</td>
<td>4.29</td>
<td>4.50</td>
<td>4.42</td>
<td>4.06</td>
<td>3.96</td>
</tr>
<tr>
<td>Tech. Comp.</td>
<td>3.41</td>
<td>4.39</td>
<td>4.75</td>
<td>4.29</td>
<td>4.02</td>
<td>3.83</td>
</tr>
<tr>
<td>Reliability</td>
<td>3.21</td>
<td>3.70</td>
<td>3.88</td>
<td>3.83</td>
<td>3.52</td>
<td>3.52</td>
</tr>
<tr>
<td>Integrity</td>
<td>2.98</td>
<td>3.75</td>
<td>4.25</td>
<td>3.76</td>
<td>3.36</td>
<td>3.29</td>
</tr>
<tr>
<td>Transparency</td>
<td>2.91</td>
<td>3.19</td>
<td>3.94</td>
<td>3.37</td>
<td>3.21</td>
<td>3.42</td>
</tr>
<tr>
<td>Benevolence</td>
<td>2.83</td>
<td>3.27</td>
<td>3.81</td>
<td>3.26</td>
<td>3.01</td>
<td>3.25</td>
</tr>
<tr>
<td>Identification</td>
<td>2.45</td>
<td>3.86</td>
<td>4.17</td>
<td>3.70</td>
<td>3.35</td>
<td>3.31</td>
</tr>
<tr>
<td>Reputation</td>
<td>2.87</td>
<td>3.80</td>
<td>4.42</td>
<td>3.78</td>
<td>3.55</td>
<td>3.53</td>
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<td>117</td>
<td>4</td>
<td>89</td>
<td>116</td>
<td>12</td>
</tr>
</tbody>
</table>

Figure 24: Example for traffic light system

Using the trust hazard grid developed in Chapter 5, the organization can deliberate which trust hazards are responsible for the low scores.

Organization 3 could check whether hidden agendas and opportunism are hazards to clients’ trust in the area of integrity. Opacity and lack of communication could be causing low trust levels in the area of transparency and lack of concern in the area of benevolence. The low levels of identification could be attributed to low value congruence.
6.2.2 Trust action generator

After trust hazards have been detected actions can be generated. Using the OTP and the ‘traffic light’ system, boards need to specifically address the stakeholders and trust dimensions marked in red. For yellow cases medium- and long-term action plans need to be conceived.

Boards can draw from the hints provided in the trust enabler section (Figure 26) and should focus on the three leverage points of organizational trust: *people, processes and philosophy*. Boards can create trustworthy leadership by selecting and promoting the right people and can ensure that processes are transparent, fair, and reward trustworthiness. Boards can also support the creation of a trust culture by enacting trust symbols, such as removing employee controls.
To have a real effect the trust action plan needs to be credible itself and integrated into organizational strategy, otherwise its effects will be very limited.

<table>
<thead>
<tr>
<th>Trust Enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
</tr>
<tr>
<td>commitment to quality</td>
</tr>
<tr>
<td>flexibility</td>
</tr>
<tr>
<td>accountability</td>
</tr>
<tr>
<td>Reliability</td>
</tr>
<tr>
<td>clear strategy/clear priorities</td>
</tr>
<tr>
<td>simple rules/adherence to rules</td>
</tr>
<tr>
<td>choosing promises wisely</td>
</tr>
<tr>
<td>Integrity</td>
</tr>
<tr>
<td>creating a value based culture</td>
</tr>
<tr>
<td>ethical role models</td>
</tr>
<tr>
<td>Transparency</td>
</tr>
<tr>
<td>clear communication</td>
</tr>
<tr>
<td>timely communication</td>
</tr>
<tr>
<td>relevant communication</td>
</tr>
<tr>
<td>Benevolence</td>
</tr>
<tr>
<td>authentic concern</td>
</tr>
<tr>
<td>stakeholder empowerment/stakeholder dialog</td>
</tr>
<tr>
<td>confronting problems</td>
</tr>
<tr>
<td>Identification</td>
</tr>
<tr>
<td>creating value congruence</td>
</tr>
<tr>
<td>merging social and economic imperatives</td>
</tr>
<tr>
<td>different organizational setup</td>
</tr>
<tr>
<td>Overall</td>
</tr>
<tr>
<td>trust</td>
</tr>
</tbody>
</table>

**Figure 26: Trust Enabler**

**Figure 27: Trust leverage points**

- select leaders with high intrinsic motivation
- select trustworthy personnel
- promote the right role models
- install process that reward trustworthiness
- create fair and transparent processes
- review processes regularly on their impact on trust
- create culture of trust
- create trust symbols
- create vision beyond profit
6.2.3 Trust decision reflector

After a coherent strategic action plan is put in place corporate boards need to ensure that management decisions will not counteract trust-building processes. Currently corporate boards evaluate management decisions mainly based on financial information. The trust decision reflector will add relevant information to evaluate the potential of each decision to build or destroy trust.

Based on the OTP, a specific decision such as a layoff, an outsourcing deal, or a new product line is reviewed regarding its impact on stakeholder trust. One could assume that layoffs, for example, will negatively effect on employee trust in general, while positively affecting investor trust. If trust levels of employees are already low, such a decision might seriously hinder productivity.

Based on the OTP, a specific decision such as a layoff, an outsourcing deal, or a new product line is reviewed regarding its impact on stakeholder trust. One could assume that layoffs, for example, will negatively effect on employee trust in general, while positively affecting investor trust. If trust levels of employees are already low, such a decision might seriously hinder productivity.

<table>
<thead>
<tr>
<th>Layoff</th>
<th>Client/Cust.</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Society</th>
</tr>
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<tbody>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competence</td>
<td></td>
<td></td>
<td>++</td>
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<td></td>
</tr>
<tr>
<td>Man. Comp.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tech. Comp.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td></td>
<td></td>
<td>--</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transparency</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Benevolence</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Identification</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 28: Example of trust decision reflector - layoffs

If management contemplates closing, for example, a factory, the board can evaluate the decision based on its implications on stakeholder trust in addition to financial aspects. In November 2005, when management at Electrolux decided to close a profitable AEG factory in Germany and move it to Italy and Poland, the board could have reflected on the decision based on the OTP. Negative fallout such as the long strike by employees, adverse press, intervention by politicians and a general negative effect on Electrolux’s reputation could have been prevented by reflecting on the decision. It could be argued that a move to Italy and Poland would not decrease costs enough to recover the negative effects of trust lost.

In general the board can evaluate a decision and come to the conclusion that the level of trust gained with one group, such as investors, will outweigh the trust decreased with other groups such as employees, society and governments. In whatever way a decision is made using the trust decision reflector, the board has a better understanding and more facts to argue with than before. The challenge is always to come to a smart trade off, and a positive transparent communication of reasons. The trust decision reflector enables boards to come

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41 See for example: http://www.n24.de/wirtschaft/unternehmen/index.php/n2006021416132700002 (6.4.06)
up with alternative decisions that protect trust while achieving managerial goals (Mishra and Spreitzer, 1998).

<table>
<thead>
<tr>
<th>Moving Production site</th>
<th>Client/Customers</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Investors</th>
<th>Society</th>
<th>New Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>---</td>
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<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Competence</td>
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<td>++</td>
<td>---</td>
</tr>
<tr>
<td>Man. Comp.</td>
<td>---</td>
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<td>++</td>
</tr>
<tr>
<td>Tech. Comp.</td>
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</tr>
<tr>
<td>Reliability</td>
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</tr>
<tr>
<td>Integrity</td>
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</tr>
<tr>
<td>Transparency</td>
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<td>++</td>
</tr>
<tr>
<td>Benevolence</td>
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<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Identification</td>
<td>---</td>
<td>---</td>
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<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Reputation</td>
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<td>---</td>
</tr>
</tbody>
</table>

Figure 29: Example of trust decision reflector - moving production site

6.2.4 Trust crisis preventor

Enron’s illegal accounting practices, Hoffman La Roche’s collusive price cartel, or Merrill Lynch’s fudged corporate rating systems caused major trust crises. All of these clandestine practices were helpful for companies in the short run, but once discovered had uncontrollable effects on the organization. To prevent trust crises, corporate boards need to detect these so-called ‘trust bombs’. To do so effectively corporate boards need to instate a front-page test for critical behavior. Boards need to discuss: What would happen if the behavior were uncovered and publicized by a major newspaper? When a negative effect can be assumed, the behavior needs to be adjusted or changed. As an example we could look at Volkswagen, which is suffering a trust crisis because members of the board accepted bribes. Had the board of VW checked this behavior early on it could have been rectified without extensive media coverage. Oftentimes however, trust bombs are hidden from boards, so that a front-page test will not be of much use. If the front-page test is instated as a process throughout the organization, trust bombs can be detected independent of board action. I argue that the mere demonstration of concern for these issues signals integrity and can create a culture of integrity which helps to uncover destructive behavior in the long run. When trust bombs are discovered early enough many trust crises can be prevented.

6.2.5 Summary

The trust building component consists of a hazard detector, action generator, a decision reflector and a crisis preventor. Based on the evaluation of the OTP, potential trust hazards are detected and necessary actions to increase trust generated by the board in cooperation with management. The decision reflector supports the board in evaluating management decisions’ impact on trust levels across stakeholders. The trust crisis preventor supports the process of crises prevention by detecting trust destroying behavior.
6.3 ISTMAF

ISTMAF consists of two components that allow boards to manage trust. The basis of ISTMAF is the trust monitor based on organizational trust profiles (OTP) and stakeholder interviews. The OTP answers the question ‘how much do you trust’? and the stakeholder interviews ‘why is the organization trusted or not’?

The trust enabler is the second component of the ISTMAF. The trust hazard detector provides systematic support to answer the question ‘what are the trust related problems in the organization’? The trust action generator aids by seeking answers to the question ‘what can the organization do’? The trust decision reflector enables boards to evaluate current management decisions’ affect on organizational trust, while the trust crisis preventor increases ability to avoid major trust crises by answering the questions of ‘what activities could harm our trust in the future’? and ‘how can harm be prevented’?

![Integrated Stakeholder Trust Management Framework](image)

**Figure 30: Integrated Stakeholder Management Framework (ISTMAF)**

ISTMAF is a management support framework based on stakeholder theory. ISTMAF focuses on trust as the key enabler of cooperation. ISTMAF visualizes trust and renders this complicated but very relevant concept accessible to management. ISTMAF, however, is not a quick fix solution to the trust problem; rather, it supports an ongoing process of increasing organizational trustworthiness. Trust cannot be managed like a production process of inputs and outputs, but several simple reflections can help spark the measures and dialog needed to increase competence, reliability, integrity transparency, and benevolence.
6.4 Integration in corporate governance

ISTMAF can be used as a stand-alone tool or integrated in corporate governance frameworks using the balanced scorecard or risk management. It can be part of general management approaches such as value-based management, reputation management, strategic planning, or corporate identity measures. ISTMAF can also support specific stakeholder oriented programs such as customer relationship management (CRM), corporate social responsibility (CSR), corporate governance, human resource management and supply chain management programs. In the following I will outline the integration of ISTMAF into balanced scorecard scenarios and risk management in more depth.

6.4.1 Balanced scorecard models

According to Arveson (1998) the balanced scorecard is a management system and a measurement system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback for both the internal business processes and external outcomes to continuously improve strategic performance and results. Kaplan and Norton (1996) describe the innovation of the balanced scorecard as follows:

The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.

Based on the idea that you cannot improve what you cannot measure (Arveson, 1998), the balanced scorecard (BSC) integrates ‘hard facts’ and ‘soft facts’. Kaplan and Norton (1996) argue that metrics must be developed based on the priorities of the strategic plan, which provides the key business drivers and criteria for metrics that managers most desire to watch. I posit that trust must become a strategic priority and be integrated into the measurement processes. Crager, Huberta and O’Kane (2005) propose that processes are designed to collect information relevant to these metrics and reduce them to numerical form for storage, display, and analysis. Decision makers should then examine the outcomes of various measured processes and strategies, then track the results to guide the company and provide feedback. ISTMAF supports this logic by offering metrics for trust to provide a factual basis for decision makers. As such, it supports the goal of the balanced scorecard to
“permit managers to see their company more clearly - from many perspectives - and hence to make wiser long-term decisions” (Arveson, 1998).

Most often the literature on BSC suggests that the organization should be viewed from four perspectives, the financial perspective, the customer perspective, the business process perspective, and the learning and growth perspective.

Figure 31: Balanced scorecard system (Arveson 1998)

6.4.1.1 Financial perspective

The financial performance of an organization is viewed as fundamental to its success even in organizations that do not aim for profit maximization. But financial figures are deemed suboptimal since they are historical and do not reflect intangible assets such as trust. Hence the current focus of most organizations is regarded as unbalanced. The financial perspective
according to Crager, Hubert and O’Kane (2005) reflects, for example, the number of debtors, cash flow or return on investment. Arveson (1998) argues that additional financial-related data, such as risk assessment and cost-benefit data, should be included.

6.4.1.2 Customer perspective

Mirroring the predicaments of stakeholder management, Kaplan and Norton (1996) include the perspective of customers into the BSC scenario. Arveson (1998) argues that the customer perspective is crucial since once unsatisfied, customers will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may state otherwise. In developing metrics for customers, trust levels should be mirrored.

6.4.1.3 Business process perspective

The business process perspective focuses on the internal perspective. According to Arveson (1998) the internal perspective allows managers to know how well their business is running, and whether its products and services conform to the strategic mission. Processes are a crucial leverage point for building trust and metrics in this category need to include trust levels.

6.4.1.4 Learning and growth perspective

Following Kaplan and Norton (1996), this perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. Trust and trustworthiness are aspects of the corporate culture that can be enhanced if continuously reinforced.

Overall, ISTMAF can support balanced scorecard scenarios well in all perspectives but the financial perspective. It would be advantageous to enlarge the current BSC perspectives by including other stakeholder views. Stakeholder trust should be made an objective and the trust monitor can complement the measurement aspects of BSC while the trust enabler initiates activities to increase trust within the BSC framework.
Another established tool used within corporate governance is risk management. Pritchard (2001) claims that risk management is a central part of any organization’s strategic management. Bell and Schleifer (1995) view risk management as the process whereby organizations methodically address the risks attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. The focus of good risk management is the identification and treatment of these risks, be they internal or external to the organization (AIRMIC, ALARM and IRM, 2002). ISTMAF can support risk management since any violation of trust can be seen as a risk to sustainable corporate performance.

The risk management process modeled above aims to add maximum sustainable value to all activities of the organization. The process consists of an analysis of the strategic objectives - the risk assessment connected to the strategic goals - a reporting and decision process leading to risk treatment and monitoring of residual risks. ISTMAF can support the risk management process, especially within the risk assessment component.
6.4.2.1 Risk analysis

Through risk identification the organization sets out to identify its exposure to uncertainty. Low trust levels are a critical factor for organizations. The trust monitor can help organizations to identify and assess risks of low trust. Once risks are identified it is important to describe the risks within a structured format. ISTMAF can support the risk description process laid out below by delivering information about stakeholders and their different evaluations of the trust dimensions. ISTMAF also supports the identification of potential actions for improvement.

<table>
<thead>
<tr>
<th>1. Name of Risk</th>
<th>Qualitative description of the events, their size, type, number and dependencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Scope of Risk</td>
<td>E.g. strategic, operational, financial, knowledge or compliance</td>
</tr>
<tr>
<td>3. Nature of Risk</td>
<td>Stakeholders and their expectations</td>
</tr>
<tr>
<td>4. Stakeholders</td>
<td>Stakeholders and their expectations</td>
</tr>
<tr>
<td>5. Quantification of Risk</td>
<td>Significance and Probability</td>
</tr>
<tr>
<td>6. Risk Tolerance/Appetite</td>
<td>Loss potential and financial impact of risk Value at risk Probability and size of potential losses/gains Objective(s) for control of the risk and desired level of performance</td>
</tr>
<tr>
<td>7. Risk Treatment &amp; Control Mechanisms</td>
<td>Primary means by which the risk is currently managed Levels of confidence in existing control Identification of protocols for monitoring and review</td>
</tr>
<tr>
<td>8. Potential Action for Improvement</td>
<td>Recommendations to reduce risk</td>
</tr>
<tr>
<td>9. Strategy and Policy Developments</td>
<td>Identification of function responsible for developing strategy and policy</td>
</tr>
</tbody>
</table>

Figure 33: Risk analysis (AIMIC 2002)

6.4.2.2 Risk evaluation

After potential risks have been identified and described, evaluation of these risks is a crucial part of the risk management process. By considering the consequence and probability of each of the risks set out in the table, it should be possible to prioritize the risks that need to be analyzed in more detail. ISTMAF supports the risk evaluation process by demonstrating the impact of a specific risk on stakeholder groups. Trust levels signal how much impact a potential risk, such as defective products or environmental accidents, will have on the organization. High trust will buffer some of the negative effects while low trust levels will magnify negative repercussions. Risk evaluations will depend on trust levels the organization experience with different stakeholder groups.
6.5 Summary

ISTMAF can support corporate boards in their supervisory and advisory roles for corporate governance purposes. ISTMAF can also enhance strategic and operational activities by management. While ISTMAF can be used as a stand-alone tool, integration in balanced scorecard scenarios and risk management provides added benefit. ISTMAF can also support a variety of other management concepts, including strategic planning, ethical management, corporate identity, corporate social responsibility, and reputation management. On an operational level ISTMAF can support supply chain management systems, customer relationship management, and human resource management. Overall, ISTMAF supports corporate boards and management to bridge the trust gap by measuring and building trust systematically.
7 Summary and Outlook

7.1 Summary
This dissertation started out by acknowledging the increased importance of organizational trust and then observing the steady decrease of trust in the current organizational environment. Viewing trust as a crucial resource that is ever more needed, I set out to create a framework that supports boards’ ability to measure, monitor and build trust. After investigating concepts that form the basis of a management framework, stakeholder management, and corporate governance, I outlined the theoretical foundations of trust as a concept for management. Exploring possibilities to measure stakeholder trust, I identified several dimensions that seem crucial: competence, reliability, integrity, benevolence, and identification. These dimensions are also relevant for trust-building aspects of organizations. Based on trust literature and semi-structured interviews, I discovered several hazards to trust in each category. Awareness of these hazards seems critical to maintaining and building organizational trust, but several active steps toward trust building can also be undertaken. I combined the findings of trust measurement and trust-building aspects into the Integrated Stakeholder Trust Management Framework (ISTMAF). Based on the trust monitor and the trust enabler component, ISTMAF is a potential managerial solution to bridging the widening trust gap.

7.2 Limitations
Answering the question of how organizations can systematically confront the trust crisis is an applied research problem. The nature of trust is truly complex, and attempts to measure it could be compared to “nailing custard to a wall.” After marrying the relevance of my research question to methodological rigor, the limitations of this dissertation remain twofold: one set of limitations is inherent to the nature of the research object ‘trust’ and the other to the application orientation of this research.
There will be continued debate regarding if and how trust can be measured. My measurement is a proposition and can be further developed in many areas. The survey used was cross-sectional in nature, but the measurement needs to be replicated in other organizations and for other stakeholder groups to demonstrate full cross-sectoral and cross-stakeholder validity.
Compromises with regard to relevance had to be made numerous times when conducting the survey and coordinating the interview research. The choice of the research unit and the generality of the survey along with the adjustments made in the process (see Chapter 4) are largely the result of the applied focus of my research.
7.3 Outlook on future research

The dissertation presents a comprehensive start for trust research in organizations. Further research can build on the existing measurement scales and develop them by integrating other items. Additional questionnaire items can be constructed especially around the notion of value congruence to determine the type of values consumers or employees particularly cherish. Items could also be made more sector- and stakeholder- specific, and thus cater to specific companies. Ebay, for example, developed a corporate strategy centered on trust. Trust monitoring can be a basic element for such an endeavor and be extended to meet the needs of an organization and its stakeholders.

Further research can reexamine cross-stakeholder validity and review additional stakeholder groups. More studies need to be conducted to establish cross-sectoral validity. Studies examining the trust dimensions within, for example, the construction or automotive sectors could shed light on potential differences. Other sectors in service industries, such as banking, auditing and consulting, also demand further research. In the same vein, very interesting findings might be established when studying governmental organizations and NGO’s.

Studies across different cultures can additionally test the cross-cultural validity of trust measurement. Studies of organizations across Europe and comparisons of European companies with their American counterparts should be conducted. African or Asian organizations should be tested as well to fully establish cross-cultural trust measures. The trust monitor proposed in this work can serve well as a starting point. The validity across ownership structures can also be tested more in-depth. Whether organizations are public or private, whether they are cooperatives or family owned - all these aspects should be tested to establish a more refined trust measurement. From a practical standpoint a trust index which is valid across sectors, across stakeholders, across cultures, and ownership structures could provide extremely interesting information to the market players. Best performers could be detected and a benchmarking process could be instated from which all organizations could learn.

Future research also needs to look at interview results and test the conclusions drawn from such analyses in terms of trust enablers and trust hazards. Further interviews can help to determine the causality of the measurement construct and determine which factors only measure by ‘fiat’. Additional research in cooperation with consulting firms could enable more representative findings. Longitudinal studies are necessary to determine which dimensions cause trust increases. Once organizations instate ISTMAF, intervention studies can be conducted to ascertain the effect of certain actions on stakeholder trust. This will be pivotal to understanding better how trust can be managed effectively. Panels of stakeholders who evaluate different organizations over time should be created. Such panel data could enhance the understanding of perception changes, which is very important to determining effects of managerial interventions on stakeholder trust.
A critical issue for trust research in organizations will remain the right balance of trust and mistrust. Research that examines trust, mistrust, control mechanisms and their respective interactions will be of utmost relevance. Study designs that integrate experiments, interviews and participant observations are considered helpful in this regard.

7.4 Societal implications

The trust issue constantly arises in public discourse, even though it is often not labeled as such. In a very recent issue, Die ZEIT (49/2005) asked whether managers are generally lacking in integrity. News sources such as DER SPIEGEL, DIE ZEIT or Brand Eins cover the crisis generated by capitalism (Fischer, 2006). In general, the tenor is that societal demands and organizational reality continue to drift apart as proponents of shareholder capitalism gain ground. The lack of trust in business seems particularly pervasive and the societal consequences have not been fully considered.

My research argues that organizations that view profit maximization as their main objective are not highly trusted. Since trust is a basis for cooperation, shareholder capitalism tends to undermine the very foundation it needs to operate successfully. Judging from the low rates of trust its proponent organizations experience (see WEF data), shareholder capitalism most likely does not use resources to its best advantage. Thus, it can be argued that shareholder capitalism is performing suboptimally and is itself a threat to cooperation.

It would be interesting to research the level of cooperation within organizations that do not subscribe to the profit maximization objective, such as cooperatives or not-for-profit organizations. These organizations enjoy higher trust levels (see WEF data) and it could be hypothesized that motivation, innovation and cooperation levels are also higher. Further research could focus on comparisons of trust and productivity levels of different types of organizations, such as NGO’s, social enterprises, family businesses and publicly listed organizations. Inferring from the findings in my research, it could be speculated that a system that enables financial and societal returns within its goal systems will be more sustainable. In consequence, a capitalism built on moral principles could reestablish trust values and increase levels of cooperation much more easily than the current form of shareholder capitalism.

For many observers the notion of moral capitalism remains utopian within a system that rewards short-term financial gains via its financial markets. Real world examples of family run organizations (Gore, US) or cooperatives (Mondragon, Spain), however, demonstrate that long-term oriented organizations built on ethical values are powerful contenders in the marketplace. New organizations based on the concept of social entrepreneurship combine entrepreneurial effectiveness and efficiency with societal purpose. They could be studied in terms of their power to build and maintain trust while being effective players in the market. I argue that the current trust crisis is but one symptom of a malfunctioning system. If organizations and society want to successfully reestablish trust, changes in the political and economic system need to be considered.
7.5 Conclusion

To raise awareness of the relevance of trust, more companies must be researched and more understanding must be created within business communities. To enable trust, more theoretical research, but also more practical applications are required. Software applications such as SAP and Strategic Enterprise Management packages need to integrate the trust perspective. Consulting companies as well as market research and polling institutes should offer an integrated stakeholder trust perspective to their clients. Business associations will benefit from initiating discourses on the relevance of trust and can offer support to member organizations when surveying and building trust.

Political organizations can support the trust-building process by integrating ISTMAF as well, but could push the envelope even further by introducing regional and national indicators of trust in different organizations. I argue that building trust sustainably requires a change in philosophy. The current philosophy of ‘opportunism’ so prevalent in business and society needs to be replaced by a philosophy of integrity. Social and national indicators can support such a change in philosophy by raising awareness and influencing public discourse. If we accept the lack of trust as a real challenge to current business practices, we must seriously think about systematic approaches to rebuild trust. Business schools and universities in the social sciences need to question their value codes, the philosophies they transmit to their students, and ways they can encourage academic social responsibility to increase levels of awareness and trust. Business schools that teach an amoral philosophy of management or preach opportunism need to be questioned and alternative modes of thinking must be introduced (see for example St. Gallen Management Model).

On a societal level trust research can provide basic insights into the foundation of social cohesion and productive societies. As Diener and Seligman (2004) propose, trust should be made a national indicator for public policy. Diener and Seligman also propose enlarging the view of organizational and public policy to include aspects of well-being rather than just focusing on productivity, profit, and growth. Trust research such as this study can provide the insights and basis for such indicators and changes on organizational as well as on national levels. In that sense trust research can also provide the basis for a rethinking of current capitalistic structures. Shareholder capitalism is gaining the ideological upper hand in many policy debates but the downside is apparent: unhappy, unmotivated and unproductive citizens, environmental destruction and a cynical society (Reichers, Wanous and Austin, 1997; Diener and Seligman, 2004; Hart, 2005). Trust research can deliver findings that support an economic system that is sustainable in the long term while securing productivity. New concepts of capitalism already exist and are tested at the margins of the current economic system. A new form of capitalism focusing on the maintenance of trust, -a moral capitalism- could be the outcome of trust research and could thus support current efforts to secure much needed social capital.
8 Bibliography


Shockley-Zalabak, P. and K. Ellis (2004). Organizational Trust Across Cultures: The Development and Validation of an Instrument and
A Study of the Relationship to Job Satisfaction and Perceived Organizational Effectiveness, IABC.


200


9 Appendix

APPENDIX A
Result tables for Field test

Which Stakeholder group do you belong to? Please list main stakeholder category.

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>18-30</th>
<th>31-45</th>
<th>46-60</th>
<th>over 60</th>
<th>Total</th>
</tr>
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<td>Investor</td>
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<td>0</td>
<td>0</td>
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</tr>
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<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>Competitor</td>
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<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Client</td>
<td>11</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td>Media</td>
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<td>3</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>NGO's</td>
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<td>0</td>
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<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Society</td>
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<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>others</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>17</td>
<td>1</td>
<td>1</td>
<td>39</td>
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</tbody>
</table>

Gender* Age Matrix

<table>
<thead>
<tr>
<th>Age</th>
<th>18-30</th>
<th>31-45</th>
<th>46-60</th>
<th>Over 60</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<tr>
<td>male</td>
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<td>0</td>
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<tr>
<td>Total</td>
<td>20</td>
<td>17</td>
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<td>39</td>
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</table>

Results for full study

Gender distribution

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<tr>
<th>Stakeholder</th>
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<th>Female</th>
<th>Male</th>
<th>Total</th>
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<tbody>
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<td>Client/Customer</td>
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<td>426</td>
<td>601</td>
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<td></td>
</tr>
<tr>
<td>Employees</td>
<td>117</td>
<td>306</td>
<td>423</td>
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<td></td>
</tr>
<tr>
<td>Suppliers</td>
<td>23</td>
<td>118</td>
<td>141</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investors</td>
<td>25</td>
<td>108</td>
<td>133</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alumni</td>
<td>43</td>
<td>208</td>
<td>251</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Society</td>
<td>58</td>
<td>110</td>
<td>168</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Businesses</td>
<td>21</td>
<td>61</td>
<td>82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student/Client</td>
<td>60</td>
<td>194</td>
<td>254</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>522</td>
<td>1531</td>
<td>2053</td>
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## Age distribution

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Under 18</th>
<th>18 - 30</th>
<th>31 - 45</th>
<th>46 - 60</th>
<th>Over 60</th>
<th>Total</th>
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<td>212</td>
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<td>192</td>
<td>46</td>
<td>5</td>
<td>423</td>
</tr>
<tr>
<td>Suppliers</td>
<td>2</td>
<td>35</td>
<td>78</td>
<td>24</td>
<td>2</td>
<td>141</td>
</tr>
<tr>
<td>Investors</td>
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<td>57</td>
<td>62</td>
<td>13</td>
<td>0</td>
<td>133</td>
</tr>
<tr>
<td>Alumni</td>
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<td>64</td>
<td>166</td>
<td>19</td>
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<tr>
<td>Society</td>
<td>4</td>
<td>67</td>
<td>40</td>
<td>33</td>
<td>24</td>
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<td>4</td>
<td>46</td>
<td>31</td>
<td>1</td>
<td>82</td>
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<tr>
<td>Student/Client</td>
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<td>244</td>
<td>9</td>
<td>0</td>
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<td><strong>Total</strong></td>
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<td>805</td>
<td>240</td>
<td>54</td>
<td>2053</td>
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## Contact duration

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Up to 1 year</th>
<th>1 to 3</th>
<th>4 to 7</th>
<th>over 7 years</th>
<th>Total</th>
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</thead>
<tbody>
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<td>87</td>
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<td>Employees</td>
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<td>137</td>
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<td>Suppliers</td>
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<td>24</td>
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<td>14</td>
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## Contact frequency

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<td>Society</td>
<td>65</td>
<td>38</td>
<td>22</td>
<td>43</td>
<td>168</td>
</tr>
<tr>
<td>Businesses</td>
<td>48</td>
<td>24</td>
<td>7</td>
<td>3</td>
<td>82</td>
</tr>
<tr>
<td>Student/Client</td>
<td>42</td>
<td>69</td>
<td>22</td>
<td>121</td>
<td>254</td>
</tr>
<tr>
<td>Total</td>
<td>364</td>
<td>357</td>
<td>258</td>
<td>1074</td>
<td>2053</td>
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</table>

## Multiple Stakeholdership

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Do you belong to more than one stakeholder group?</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>Total</td>
</tr>
<tr>
<td>Client/Custumers</td>
<td>74</td>
<td>527</td>
<td>601</td>
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<tr>
<td>Employees</td>
<td>187</td>
<td>236</td>
<td>423</td>
</tr>
<tr>
<td>Suppliers</td>
<td>48</td>
<td>93</td>
<td>141</td>
</tr>
<tr>
<td>Investors</td>
<td>66</td>
<td>67</td>
<td>133</td>
</tr>
<tr>
<td>Alumni</td>
<td>103</td>
<td>148</td>
<td>251</td>
</tr>
<tr>
<td>Society</td>
<td>37</td>
<td>131</td>
<td>168</td>
</tr>
<tr>
<td>Businesses</td>
<td>28</td>
<td>54</td>
<td>82</td>
</tr>
<tr>
<td>Student/Client</td>
<td>68</td>
<td>186</td>
<td>254</td>
</tr>
<tr>
<td>Total</td>
<td>611</td>
<td>1442</td>
<td>2053</td>
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</table>
Results of EFA after deleting items f12, f26 and f28

<table>
<thead>
<tr>
<th>Item</th>
<th>T</th>
<th>REP</th>
<th>ID</th>
<th>TC</th>
<th>INT</th>
<th>B</th>
<th>REL</th>
<th>MC</th>
<th>Identification</th>
</tr>
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<tbody>
<tr>
<td>The organization says, if something goes wrong</td>
<td>0.87</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>is transparent</td>
<td>0.85</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>openly shares all relevant information</td>
<td>0.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>explains its decisions</td>
<td>0.46</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>people I know speak highly of the organization</td>
<td>1.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Stakeholders are positive towards the organization</td>
<td>0.80</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>enjoys a high reputation</td>
<td>0.76</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I feel connected with the organization</td>
<td>0.88</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>I can identify with the organization</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>my personal values match the values of the organization</td>
<td>0.71</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>is very competent in its area</td>
<td>0.90</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>generally has high standards</td>
<td>0.83</td>
<td></td>
<td></td>
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<tr>
<td>has high moral standards</td>
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<tr>
<td>does not try to deceive</td>
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<tr>
<td>treats its stakeholders’ with respect</td>
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<td></td>
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<td></td>
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<tr>
<td>listens to my needs</td>
<td>1.04</td>
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<td></td>
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<td>is caring</td>
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<tr>
<td>is fair</td>
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<td>does what it says</td>
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<tr>
<td>communicates regularly important events and</td>
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<tr>
<td>is reliable</td>
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<tr>
<td>can successfully adapt to changing demands</td>
<td>0.93</td>
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<tr>
<td>is able to reach set goals</td>
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</table>

Six factor model as basis for second order model
Correlations: (Group number 1 - Default model)

<table>
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<tr>
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<th>Estimate</th>
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<tr>
<td>d4 &lt;-- d5</td>
<td>.807</td>
</tr>
<tr>
<td>d3 &lt;-- d5</td>
<td>.930</td>
</tr>
<tr>
<td>d2 &lt;-- d5</td>
<td>.859</td>
</tr>
<tr>
<td>d5 &lt;-- d6</td>
<td>.705</td>
</tr>
<tr>
<td>d1 &lt;-- d5</td>
<td>.681</td>
</tr>
<tr>
<td>d3 &lt;-- d4</td>
<td>.831</td>
</tr>
<tr>
<td>d2 &lt;-- d4</td>
<td>.852</td>
</tr>
<tr>
<td>d4 &lt;-- d6</td>
<td>.670</td>
</tr>
<tr>
<td>d1 &lt;-- d4</td>
<td>.726</td>
</tr>
<tr>
<td>d2 &lt;-- d3</td>
<td>.924</td>
</tr>
<tr>
<td>d3 &lt;-- d6</td>
<td>.767</td>
</tr>
<tr>
<td>d1 &lt;-- d3</td>
<td>.730</td>
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<tr>
<td>d2 &lt;-- d6</td>
<td>.848</td>
</tr>
<tr>
<td>d1 &lt;-- d2</td>
<td>.872</td>
</tr>
<tr>
<td>d1 &lt;-- d6</td>
<td>.833</td>
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</table>
Second order model - Six factor model
Loadings 8-factor Model

<table>
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<tr>
<th>CFA 2.Order Model</th>
<th>ALL CFI: 0.951</th>
<th>Reliability</th>
<th>0.99</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Integrity</td>
<td>0.94</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benevolence</td>
<td>0.88</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transparency</td>
<td>0.87</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tech. Comp.</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manag. Comp</td>
<td>0.81</td>
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</table>

<table>
<thead>
<tr>
<th>Organization 2</th>
<th>CFI: 0.951</th>
<th>Reliability</th>
<th>0.97</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Integrity</td>
<td>0.97</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benevolence</td>
<td>0.87</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transparency</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tech. Comp.</td>
<td>0.79</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manag. Comp</td>
<td>0.71</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization 3</th>
<th>CFI: 0.944</th>
<th>Reliability</th>
<th>1.02</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Benevolence</td>
<td>0.88</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Integrity</td>
<td>0.88</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manag. Comp</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transparency</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tech. Comp.</td>
<td>0.78</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Organization 4</th>
<th>CFI: 0.939</th>
<th>Reliability</th>
<th>0.93</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Integrity</td>
<td>0.91</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transparency</td>
<td>0.82</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benevolence</td>
<td>0.78</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tech. Comp.</td>
<td>0.65</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manag. Comp</td>
<td>0.63</td>
</tr>
</tbody>
</table>

| Organization 1    | N<100=> no analysis |

Results CFA across organizations
## Results CFA across Stakeholder groups

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Reliability</th>
<th>Integrity</th>
<th>Benevolence</th>
<th>Transparency</th>
<th>Tech. Comp.</th>
<th>Manag. Comp</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Clients</strong></td>
<td>1.02</td>
<td>0.94</td>
<td>0.91</td>
<td>0.86</td>
<td>0.81</td>
<td>0.80</td>
</tr>
<tr>
<td><strong>CFI:.959</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>0.97</td>
<td>0.89</td>
<td>0.88</td>
<td>0.76</td>
<td>0.69</td>
<td>0.69</td>
</tr>
<tr>
<td><strong>CFI:.955</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Suppliers</strong></td>
<td>1.00</td>
<td>0.90</td>
<td>0.87</td>
<td>0.83</td>
<td>0.82</td>
<td>0.74</td>
</tr>
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<td><strong>CFI:.930</strong></td>
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<tr>
<td><strong>Investors</strong></td>
<td>0.96</td>
<td>0.94</td>
<td>0.89</td>
<td>0.85</td>
<td>0.80</td>
<td>0.76</td>
</tr>
<tr>
<td><strong>CFI:.909</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Alumni</strong></td>
<td>0.98</td>
<td>0.92</td>
<td>0.87</td>
<td>0.79</td>
<td>0.76</td>
<td>0.65</td>
</tr>
<tr>
<td><strong>CFI:.931</strong></td>
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</tr>
<tr>
<td><strong>Society</strong></td>
<td>0.98</td>
<td>0.96</td>
<td>0.90</td>
<td>0.87</td>
<td>0.86</td>
<td>0.84</td>
</tr>
<tr>
<td><strong>CFI:.940</strong></td>
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</tr>
<tr>
<td><strong>Students</strong></td>
<td>1.00</td>
<td>0.77</td>
<td>0.74</td>
<td>0.72</td>
<td>0.69</td>
<td>0.62</td>
</tr>
<tr>
<td><strong>CFI:.909</strong></td>
<td></td>
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</tr>
</tbody>
</table>
Decision rules for distinguishing formative and reflective models (Burke Jarvis, MacKenzie et al 2003)

<table>
<thead>
<tr>
<th>Decision rules for determining whether a construct is formative or reflective</th>
<th>Formative model</th>
<th>Reflective model</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Direction of causality from construct to measure implied by the conceptual definition</td>
<td>Direction of causality is from items to construct Indicators are defining characteristics of the construct Changes in the indicators should cause changes in the construct Changes in the construct do not cause changes in the indicators</td>
<td>Direction of causality is from construct to items Indicators are manifestations of the construct Changes in the indicator should not cause changes in the construct Changes in the construct do cause changes in the indicators</td>
</tr>
<tr>
<td>Are the indicators (items) (a) defining characteristics or (b) manifestations of the construct? Would changes in the indicators/items cause changes in the construct or not? Would changes in the construct cause changes in the indicators?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Interchangeability of the indicators/items Should the indicators have the same or similar content? Do the indicators share a common theme? Would dropping one of the indicators alter the conceptual domain of the construct?</td>
<td>Indicators need not be interchangeable Indicators need not have the same or similar content/indicators need not share a common theme Dropping an indicator may alter the conceptual domain of the construct</td>
<td>Indicators should be interchangeable Indicators should have the same or similar content/indicators should share a common theme Dropping an indicator should not alter the conceptual domain of the construct</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Covariation among the indicators Should a change in one of the indicators be associated with changes in the other indicators?</td>
<td>Not necessary for indicators to covary with each other Not necessarily</td>
<td>Indicators are expected to covary with each other Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Nomological net of the construct indicators Are the indicators/items expected to have the same antecedents and consequences?</td>
<td>Nomological net for the indicators may differ Indicators are not required to have the same antecedents and consequences</td>
<td>Nomological net for the indicators should not differ Indicators are required to have the same antecedents and consequences</td>
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</table>
Direct trustworthiness and trust values across stakeholders and organizations

<table>
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<th>Trust</th>
<th>Combined</th>
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<tr>
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<td>Suppliers</td>
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<td>3.82</td>
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<tr>
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<tr>
<td>2</td>
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<tr>
<td>3</td>
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<td>2.71</td>
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<td></td>
<td>Employees</td>
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<tr>
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### Results of hierarchical regression analysis per stakeholder group

<table>
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<th>Sig.(p)</th>
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<th>Standardized</th>
<th>t</th>
<th>Sig.(p)</th>
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<tbody>
<tr>
<td><strong>ALL</strong></td>
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Formative model and significant dimensions per organization and stakeholder

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APPENDIX B
Original Version of questionnaire (in German)

Fragebogen: Organisatorisches Vertrauen

Geschlecht:
- Weiblich [ ]
- Männlich [ ]

Alter:
- unter 18 [ ]
- 18-30 [ ]
- 31-45 [ ]
- 46-60 [ ]
- over 60 [ ]

Wie lange haben sie schon mit der Organisation Kontakt?
- 0-1 Jahr [ ]
- 1-3 Jahre [ ]
- 4-7 Jahre [ ]
- über 7 Jahre [ ]

Wie oft hatten sie bisher mit der Organisation Kontakt?
- 1 bis 10 Mal [ ]
- 11 bis 49 Male [ ]
- 50 bis 100 Male [ ]
- über 100 Male [ ]

Welcher Anspruchsgruppe gehören sie an? Bitte wählen sie die Hauptzugehörigkeit.
- Mitarbeiter [ ]
- Investor [ ]
- Zulieferer [ ]
- Partner [ ]
- Kunde [ ]
- Gesellschaft [ ]

Gehören sie mehreren Anspruchsgruppen der Organisation gleichzeitig an?
- Ja [ ]
- Nein [ ]

Erläuterung: Es folgen Aussagen zur Organisation XX. Bitte kreuzen sie die Antwort an, die ihrer aktuellen Einschätzung nach am besten entspricht. Die Antworten werden anonym und nur für wissenschaftliche Zwecke genutzt.

Wie sehr stimme ich dieser Aussage in Bezug auf Organisation XX zu.

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Wenn sie die Frage nicht beantworten können, weil sie nicht zutrifft kreuzen sie bitte Ø an.

*Anspruchsgruppen sind: Mitarbeiter, Kunden, Zulieferer, Investoren, Partner, Gesellschaft
Die Organisation…

1. ist vertrauenswürdig
2. kann sich erfolgreich an veränderte Bedingungen anpassen.
3. ist fähig selbst gesteckte Ziele zu erreichen.
4. ist in ihrem Gebiet sehr kompetent.
5. hat generell hohe Standards.
6. ist konsistent in ihrem Umgang mit Anspruchsgruppen*.
7. kommuniziert regelmässig wichtige Anlässe und Entscheidungen.
8. tut was sie sagt.
9. ist zuverlässig.
10. versucht nicht zu täuschen.
11. ist moralisch integer.
12. behandelt Anspruchsgruppen* respektvoll.
13. erklärt ihre Entscheidungen.
14. sagt, wenn etwas schief läuft.
15. ist transparent.
16. teilt offen alle wichtigen Informationen mit.
17. ist fürsorglich.
18. hört auf meine Bedürfnisse.
19. ist fair.
20. nutzt Anspruchsgruppen*nicht aus.
21. teilt offen alle wichtigen Informationen mit.
22. geniesst ein hohes Ansehen.
23. ist vorbildlich.
24. bietet sehr gute Arbeitsbedingungen
25. bietet sehr gute Produkte und Dienstleistungen an.
26. bietet ein sehr gutes Preis/Leistungsverhältnis an.
27. wird eine gute Zukunft haben.
30. Ich kann mich mit der Organisation identifizieren
32. Ich fühle mich der Organisation verbunden.
33. Ich vertraue der Organisation.
34. Ich betrachte die Organisation als eine sozial verantwortliche Organisation.

Ich würde Freunden empfehlen,
35. in die Organisation zu investieren (wenn Möglichkeit gegeben wäre).
36. die Produkte/ Dienstleistungen von dieser Organisation zu kaufen.
37. bei der Organisation zu arbeiten.
38. mit der Organisation eine Partnerschaft einzugehen.

VIELEN DANK!
| f1: Geschlecht | f1: Gender | B= Benevolence |
| f2: Alter | f2: Age | C= Competence |
| f3: Wie lange haben sie schon mit der Organisation Kontakt? | f3: How long did you have contact with the organization? | I= Integrity |
| f4: Wie oft hatten sie bisher mit der Organisation Kontakt? | f4: How often did you have contact with the organization? | R= Reliability |
| f5: Which Stakeholder group do you belong to? | f5: Do you belong to more than one stakeholder group? | T= Transparency |
| f6: Welcher Anspruchsgruppe gehören sie an? Bitte wählen sie die Hauptzugehörigkeit im Fall von mehreren Zugehörigkeiten. | f6: Which Stakeholder group do you belong to? | ID= Identification |
| f7: The organization is trustworthy | f7: is consistent when dealing with stakeholders | RE= Reputation |
| f8: How often did you have contact with the organization? | f8: can successfully adapt to changing demands | C |
| f9: is able to reach set goals | f9: generally has high standards | C |
| f10: is very competent in its area | f11: has high moral standards | B, I |
| f12: is consistent when dealing with stakeholders | f12: communicates regularly important events and decisions | R |
| f13: does what it says | f13: is transparent | T= Transparency |
| f14: is a role model | f14: openly shares all relevant information | T= Transparency |
| f15: is fair | f15: listens to my needs | B= Benevolence |
| f16: does not abuse stakeholders | f16: enjoys a high reputation | RE= Reputation |
| f17: is moralisch einwandfrei. | f17: geniesst ein hohes Ansehen. | RE= Reputation |
| f18: behandelt Anspruchsgruppen* respektvoll. | f18: offers a very good price / value | Control ( C ) |
| f19: explains its decisions | f19: offers very good products and services | Control ( C ) |
| f20: offers good work conditions | f20: people I know speak highly of the organization | RE= Reputation |
| f21: is transparent | f21: offers a very good price / value | Control ( C ) |
| f22: offers very good products and services | f22: stakeholders are positive towards the organization | RE= Reputation |
| f23: is caring | f23: I view Organization XX as a good corporate citizen | I, B |
| f24: is a role model | f24: I feel connected with the organization | ID= Identification |
| f25: is fair | f25: I feel connected with the organization | ID= Identification |
| f26: offers a very good price / value | f26: I trust the organization | Trust |
| f27: offers very good products and services | f27: I would recommend Organization XX as a good corporate citizen | I, B |
| f28: Stakeholders are positive towards the organization | f28: I would recommend Organization XX to friends as a good partner to work with | behavioral outcome |
| f29: I would recommend Organization XX to friends as a good place to work | f29: I would recommend Organization XX to friends as a good partner to work with | behavioral outcome |
| f30: I would recommend Organization XX to friends as a good partner to work with | f30: I would recommend Organization XX to friends as a good place to work | behavioral outcome |
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Scale Items Measuring Each Construct

Managerial Competence
The organization...
• can successfully adapt to changing demands.
• is able to reach set goals.

Technical Competence
The organization...
• is very competent in its area.
• generally has high standards.

Reliability
The organization...
• is consistent when dealing with stakeholders.
• communicates regularly important events and decisions.
• does what it says.
• is reliable.

Transparency
The organization...
• explains its decisions.
• says, if something goes wrong.
• is transparent.
• openly shares all relevant information.

Integrity
The organization…
• does not try to deceive.
• has high moral standards.
• treats its stakeholder with respect.

Benevolence
The organization...
• is caring.
• listens to my needs.
• is fair.
• does not abuse stakeholder.

Reputation
• The organization enjoys a high reputation.
• People I know speak highly of the organization.
• Stakeholders are positive towards the organization.

Identification
• I can identify with the organization.
• My personal values match the values of the organization.
• I feel connected with the organization.
APPENDIX C
Catalogue for semi-structured interviews

Introductory questions:
• When you are a customer what is relevant to you to buy from an organization?
• Why are you a client of Organization X?
• As an employee how do you decide where to work and when you like your work?
• Why are you working at Organization X?
• When you invest where do you invest and how do you decide? (Investor)
• How do you choose your business partners? (Suppliers)
• What is your perception of Organization X in general? (Society)

Trust specific questions:
• What organizations do you trust?
• What do you associate with the notion of trust?
• What is trust for you?
• How does trust manifest itself for you?
  (Check for competency, reliability, integrity, transparency, identification and benevolence)
• What are differences in trusting relationships?
• How do you decide to trust someone / an organization?
• What do you do when you do not trust an organization?
• Tell me an example of a person that you trust and why you trust this person?
• Tell me about an organization that you trust and why you trust this organization?

Critical Incident questions:
• Tell me about an incident that increased your trust in a person or an organization?
• Tell me about an instance where your trust was breached, and walk me through your conclusions and actions afterwards?
• Is there a difference in your trusting behavior towards an organization and the organizations’ leadership?
• Which societal organizations do you trust most and which least (offer examples of NGO, Churches, Military, Police, Political Parties, Government etc.)?
• Why do you prefer one societal group over another?
Overview of sample structure

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APPENDIX D
CD-ROM including: (only for supervisors)

- Survey data (SPSS)
- Data analysis (AMOS)
- Interview transcripts

Interview coding (Atlas.ti)
Curriculum Vitae
Michael Pirson was born in Rheinfelden/Baden, Germany, in 1973. He grew up in the southwestern region of Germany, near Switzerland and France. Between 1994 and 2000 he completed a double diploma degree in Political Science (Institut d'Etudes Politiques, Strasbourg, France) and Economics/ Business Administration (University of Erlangen-Nuernberg), which also included a MBA program (Indiana University, USA).
He subsequently worked for start up companies and for an international consulting group for 3 years before returning to taking up his doctoral studies at the University of St. Gallen. He began his research under the supervision of Prof. Dr. Martin Hilb and Prof. Dr. Emil Walter-Busch, and then continued for 2 years at Harvard University working with Prof. Deepak Malhotra at HBS.