

# The Universality of Trust?

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## Abstract

Empirical evidence is presented which suggests that trust is more important in facilitating exchange in transitional economies than industrial economies. Furthermore, the various item measures that have been employed to evaluate trust in Europe, North America, Australia and Japan, fail to accurately describe the construct among small farmers in a developing country. While further studies are necessary to develop a more robust measure of trust, in the context of small business, trust between organisations and individual's is difficult differentiate.

## Introduction

Trust is the critical determinant of a good relationship (Dwyer, Schurr and Oh 1987; Ganesan 1994; Morgan and Hunt 1994). For any exchange, trust will be critical if two situational factors are present; risk and incomplete buyer information. In such situations, trust acts as an information resource that directly reduces the perceived threat of information asymmetry and performance ambiguity (Singh and Sirdeshmukh 2000). Trust enables buyers to adopt schemas which leave them free to act where they are unable to acquire sufficient information (Selnes 1998) or where the buyer must process more information than they are capable of handling (Tomkins 2001).

Anderson and Narus (1990) view trust as the belief that the partner will perform actions that will result in positive outcomes for the firm and not to take unexpected actions that may result in negative outcomes. Moorman, Deshpande and Zaltman (1993) define trust as the willingness to rely upon an exchange partner in whom one has confidence. They describe trust as a belief, a sentiment or an expectation about an exchange partner that results from the partner's expertise, reliability and intentionality. This component of trust, which Ganesan (1994) describes as credibility, is based on the extent to which the focal firm believes that its partner has the required expertise to perform the activities effectively and reliably.

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

Heide (1994) considers inter-organisational trust to be a governance mechanism that mitigates opportunism in exchange transactions. When trust exists, the focal firm believes that long-term idiosyncratic investments can be made with limited risk because their partner will refrain

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from using their power to renege on contracts or to use a change in circumstances to obtain profits in their own favour (Ganesan 1994). Trust increases the partner's tolerance for each other's behaviour, facilitating the informal resolution of conflict, which allows the partners to better adapt to the needs and capabilities of the other (Hakansson and Sharma 1996).

However, Anderson and Narus (1990) and Doney and Cannon (1997) find it necessary to differentiate between organisational trust and trust in an individual. Swan, Trawick and Silva (1985) indicate how competence, customer orientation, honesty, dependability and likeability facilitate the development of trust between sales representatives and their customers. Moorman, Deshpande and Zaltman (1993) argue that the interpersonal factors that most affect personal trust include perceived expertise, sincerity, integrity, tactfulness, timeliness and confidentiality.

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

Parkhe (1993) reveals how building trust in a relationship requires a deliberate strategy of forbearance with a view towards future pay-offs and accumulated evidence of non-renegeing behaviour. With trust, there is an increasing willingness to put oneself at risk, be it through intimate disclosure, reliance on another's promises or sacrificing present rewards for future gains. However, the extent to which trust develops in a relationship will depend upon how the respective parties feel and behave and the value of the outcomes achieved. When economic outcomes are high, the focal firm may attribute a great deal of credit to their partner and thus the focal firm's attraction to and trust in their partner will increase (Geyskens, Steenkamp and Kumar 1998). Conversely, when economic outcomes are low, the focal firm may become frustrated and attribute blame to the partner, thereby leading to reduced trust (Frazier 1983).

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

In building trust in relationships, Sako (1992) finds it necessary to differentiate between trust at three distinct levels. Competence trust is derived from the assumption that the entrusted firm will carry out its activities competently and reliably. Contractual trust is an expectation

that the partner will abide by its written or oral contractual obligations and act according to generally accepted business practice. Goodwill trust arises where both parties have developed mutual expectations that the other will do more than it is formally committed to perform. Here the firm not only expects the other not to act opportunistically, but that it will, altruistically, go out of its way to help (McCutcheon and Stuart 2000). While history, cumulative interaction and transference may build the lower forms of trust, the development of goodwill trust will require not only the absence of exploitation and coercion, but also a history of demonstrated good intentions.

While a great deal has been written about the development and maintenance of trust in buyer-seller relationships in Europe, North America, Australia and Japan, very little research has been conducted in the developing world. Although Sako (1992), Humphrey and Schmitz (1998), Moore (1999) and Lyon (2000) offer similar definitions of trust, there is no empirical evidence to support the universality of the construct. Using six item measures developed by Doney and Cannon (1997), this paper seeks to explore the extent to which trust is consistent between Australia and two developing countries (Indonesia and The Philippines).

### **Methodology**

Data for the two South East Asian studies were collected from detailed personal interviews with potato farmers in the highlands of The Philippines (Batt 2000) and East Java (Aji 2001) where both studies sought to examine the nature of the buyer-seller relationship between potato growers and their seed suppliers. Data for the two Western Australian studies were taken from the results of mail questionnaires sent to all fresh fruit and vegetable growers in WA which sought to examine the nature of the growers' relationship with their preferred market agent (Batt 2001) and to all grape growers in WA which sought to examine the nature of the growers' relationship with their preferred winery (Batt and Wilson 2000).

In three of the four studies, the growers responses were evaluated using a seven point from 1 (I disagree a lot) to 7 (I agree a lot). However, since one study used a six point scale, in order to compare the means, it was first necessary to adjust the mean scores before using ANOVA to determine if there was any significant difference among the means.

Each data set was then analysed using principal component analysis (with varimax rotation and Kaiser normalisation). Those items with factor loadings below 0.5 or with cross-loadings greater than 0.4 were excluded (Nunnally 1978). Further clarification of the contribution each item made to the factor was achieved by applying the reliability coefficient (Cronbach 1951).

### **Results and discussion**

Significant differences for each of the item scores were found between the respective studies (Table 1). The levels of trust between potato growers and seed suppliers in The Philippines (TP) and grape growers and the wineries in WA (GG), was significantly higher than that demonstrated by potato growers and seed suppliers in East Java (EJ) and fresh fruit and vegetable growers and their market agents in WA (FVG). Potato growers in The Philippines demonstrated a much higher belief in the information provided by their seed supplier than the other three grower groups. Similarly, potato growers and grape growers had significantly higher levels of confidence in their preferred partner than the fresh fruit and vegetable growers had in their preferred market agent.

In looking at the difference between potato growers in South East Asia and the two grower groups in WA, it was apparent that potato farmers in The Philippines and East Java believed that their most preferred seed supplier was both more likely to keep their promise and to act in a manner that was in the growers' best interest.

**Table 1. Adjusted means for the Six Trust Item Measures.**

Item measures	SE Asia		WA	
	TP	EJ	GG	FVG
Sample size	234	209	26	181
Trust preferred partner	6.15 <sup>a</sup>	4.78 <sup>b</sup>	5.47 <sup>a</sup>	4.79 <sup>b</sup>
Believe information provided by preferred partner	5.74 <sup>a</sup>	4.73 <sup>b</sup>	5.16 <sup>b</sup>	4.78 <sup>b</sup>
Have confidence in preferred partner	5.98 <sup>a</sup>	5.75 <sup>a</sup>	5.56 <sup>ab</sup>	5.03 <sup>b</sup>
Partner always considers my best interests	5.41 <sup>b</sup>	6.07 <sup>a</sup>	4.17 <sup>c</sup>	4.38 <sup>c</sup>
Partner is not always honest with me	2.24 <sup>b</sup>	1.86 <sup>b</sup>	3.32 <sup>a</sup>	3.12 <sup>a</sup>
Partner always keeps promises	5.59 <sup>a</sup>	6.07 <sup>a</sup>	4.89 <sup>b</sup>	4.55 <sup>b</sup>

where those items with the same superscript are not significantly different at  $p = 0.05$

This result was not unexpected. As the majority of potato growers in both The Philippines and East Java are very small farmers, most are capital constrained and therefore dependent upon their seed suppliers to provide the finance required to cultivate the crop. Seed suppliers advance funds to growers with the express intention of securing the crop at harvest, whereby, after deducting their costs (including interest), they return the residual balance to the growers. Since there are few opportunities for legal recourse, a high degree of trust between the grower and the seed supplier is required. Even although the growers are highly vulnerable to potential exploitation, various social norms and sanctions constrain opportunism.

Significant differences were also found from the results of principal component analysis. For the two studies conducted in WA, a robust unidimensional construct was achieved in both cases. For the grape growers (GG), the reliability coefficient was 0.916 and for the fruit and vegetable growers (FVG), the reliability coefficient was 0.910 (Table 2). From their research in North America, Doney and Cannon (1997) found trust to be a unidimensional construct. Employing 8 item measures, the reliability coefficient for their construct was 0.94.

**Table 2. Factor scores for the two Western Australian studies.**

	GG	FVG
Trust preferred partner	0.909	0.887
Have confidence in preferred partner	0.906	0.891
Partner always considers my best interests	0.746	0.863
Partner is not always honest with me		
Partner always keeps promises	0.951	0.858
Believe information provided by preferred partner	0.871	0.748
Eigenvalue	4.058	4.044
Percent variance	67.64	67.40
Cronbach's alpha	0.916	0.910

However, for the Philippines and Indonesia, these same 6 item measures produced two, two factor solutions. For the Philippines, the first factor captured the seed supplier's credibility. With a reliability coefficient of 0.78, this factor was considered sufficiently robust. However, with a reliability coefficient of just 0.49, the second factor could not be accepted (Table 3).

**Table 3. Factor scores for the two South East Asian studies.**

	Philippines		East Java	
	1	2	1	2
Trust preferred partner		.769	.874	
Have confidence in preferred partner	.720			.780
Partner always considers my best interests		.645		.872
Partner is not always honest with me				
Partner always keeps promises	.869			
Believe information provided by preferred partner	.887		.808	
Eigenvalue	2.14	1.34	1.50	1.39
Percent variance	42.7	26.9	37.5	34.9
Cumulative variance	42.7	69.6	37.5	72.4
Cronbach's alpha	0.777	0.487	0.614	0.559

For the Indonesian potato farmers, neither of the two factors extracted were acceptable as both were below the minimum (0.7) (Nunnally 1978).

### **Implications**

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

While Lyon (2000) suggests that the most commonly cited reason for trusting someone is the result of a long-standing personal relationship, none of the measures used by Doney and Cannon (1997) included this personal aspect of trust. Primarily this is because they found it necessary to evaluate trust in an organisation and trust in an individual separately. However, in the context of small family farms, trust in an organisation and trust in an individual will be one and the same. For small family enterprises, participants expose not only the business, but also themselves and their immediate family to potential loss. Family firms are therefore more likely to consider trust as an important prerequisite in building long-term relationships and will actively seek, through the words and actions of other people (and organisations), those partners who they perceive as being most trustworthy. File, Mack and Prince (1994) describe family businesses as being more suspicious of unfamiliar exchange partners and to exert more effort in pre-purchase search and qualifying behaviors before undertaking new transactions.

Lyon (2000) believes that it is necessary to understand how markets operate in different countries and to be sensitive to local path dependencies, rather than assume there are universal market forces or conditions that can be transplanted everywhere. Similarly, Moore (1999)

suggests that it is dangerous to conflate trust over a wide range of social domains and to assume that one is describing an equivalent phenomenon in all contexts. Trust is not a generic phenomena nor is it similar in all social domains. The concept of trust is both emotive and of different emotional significance in different cultures.

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