

Trust in Network Relationships

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Abstract

Networks are a central issue in management and governance literature in the last years. This contribution discusses the advantages of networks as a management model, introduces different models of trust and their role in establishing and stabilisation of network relationship and describes trust supporting structures and problematic aspects of trust. Finally it pleads for a combination of trust and awareness to avoid problems connected with the concept of trust.

Keywords: *network, trust, network relationship, coordination*

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Introduction

Asked for a term which can subsume a big part of the management and governance literature of the last years, “network” would probably be the one to choose. Hardly any other approach has spread out so successfully in the discussion. And hardly any other approach has produced such a mess of different types, concepts and accesses. The relevant literature discloses a real “network-jungle” and it would be a hard job to structure the whole debate (Windeler, Wirth 2010; Wetzel et al. 2005).

Although the idea of a network seems so simple, it is obviously very difficult to get a real grasp of it. And because of the hype on networks – sometimes you get the impression networking is the answer to everything – its difficult to get in touch with the basic idea behind it. Roughly, the debate can be divided into three different perspectives, which of course are very closely connected to each other: One perspective deals with formal network analysis and focuses on the visualisation of interrelations, connections and relationships between different objects. E. g., the whole research on citation networks in science (who cites who) or on political and economic influence networks belongs to this type of analysis. The second perspective takes an empirical point of view and describes company networks as a way of corporate governance. Due to the European Community’s initiative, in a lot of European countries Innovation- or Production clusters emerge

and turn out as a very effective way for small and medium enterprises (SMEs) to face the challenges of globalising markets.

1. Network as a Model of Coordination

In this article, I will start with the third and more theoretical perspective, which takes network as a special concept of governance and coordination of actors (Powell, 1990; Weyer, 2000): The classical literature divides two different ideal models of coordination: market and hierarchy, which have to be introduced in the context of this Journal only very shortly and broad brush: As theory states, on markets actors meet only at single issues for a short period of time. They exchange clearly defined goods for a certain amount of money, so money is the medium of coordination. The market – theoretically – exists of an accumulation of single and more or less independent actions of more or less independent actors which get steered by the famous “invisible hand”. Hierarchy is quite the opposite. It creates strong and durable relationships between actors which concern not only single but a whole set of actions. Therefore exchanged goods are undefined: in an employer-employee relationship, there is no need to exactly fix daily business of interchange in the work contract. The medium of coordination in hierarchy is power; actions get steered by the “visible hand” of the person the other actors depend on.

Both models of coordination have advantages and disadvantages. The market is very flexible and reacts very fast to changes. But on the other hand, it is highly insecure and risky: the fact that access to resources of other actors is ensured at a certain time gives no guarantee that this will be the case another time. Every interaction has to be negotiated. Hierarchy in turn provides a high degree of security and reliability, the relationship is fixed at one time and guarantees durable access to resources of the employee. But on the other hand, it is very inflexible, needs the establishment of control structures – in other words bureaucracy – and shows a very slow reaction to context changes.

Beside that, in certain situations neither market nor hierarchy seem to be the suitable model of coordination. One example with growing importance is the coordination of innovation processes: Innovation processes need a high degree of information exchange, in other words they depend on efficient and reliable modes of information transfer. But neither markets nor hierarchies provide incentives to pass on information between actors: on the markets because information provides an advantage to competitors, in hierarchy, because information is a matter of power. Furthermore innovation processes deal with undefined goods on the one side, but have to react to context changes very flexibly and directly on the other side. Therefore, management literature has started quite early to look for a third mode of coordination which provides the advantages of market and hierarchy and avoids the disadvantages (Granovetter 1073).

Networks seem to be a very effective way of cooperation in these cases. They establish reliable interdependencies between independent partners. They allow the coexistence of different interests, competencies and organizational

cultures within a durable coordination of action, and this way offer the possibility to cooperate without the need of powerful structures of bureaucracy. Networks normally refer only to certain areas of action – e. g., companies cooperate only in certain aspects, but stay competitive in others. They bring market egoists into durable relationships and undermine hierarchical structures by combining them with competitive elements. Therefore networks always imply inherent tensions between cooperation and competition on the one side, between autonomy and dependency on the other. These inherent tensions make it necessary to look for a medium of coordination which is as strong and efficient as “money” and “power”, but avoids their insecurity and inflexibility.

2. Trust as the base of Networks

The sociological perspective might help here: From a sociological point of view, the success of “money” and “power” as a medium of coordination lies in their ability to reduce complexity in an overcomplex world. To take it as an picture: While the „homo economicus“ has theoretically acted in a situation of full information the „homo sociologicus“ tries to behave „meaningful“ with his restricted resources in an intransparent, confusing and overwhelming world. Facing an open and risky future, he is always interested in finding possibilities to reduce complexity and to influence future in a - for him - favourable way¹. Money as a generalised medium gives him the possibility, to realise his decisions in the future and power makes it possible for him to influence the future behaviour of other people. But in both cases he makes an underlying assumption, which is not part of the medium itself but the premise for its function: the assumption, that - in future - money will still be valuable and power will still be in place. In other words, he trusts in the future of these mediums. This leads to a third and not less strong medium for the reduction of complexity: trust.

To make things a bit less theoretical: It is easy to understand how trust helps to reduce complexity when you think about the absence of trust: Distrust ties a lot of attention and makes it necessary to spend much time on the collection of information and the establishment of structures of control. To make the decision to cooperate with somebody or not, is a long, complex and expensive process, which can be extremely abbreviated by coming back to existing trust relationships. This way, cooperation can be established much faster than on bargaining or on power. Trust reduces the time I need to collect information and to establish control structures.

Furthermore, trust makes it possible to transfer the expectation of a payback for investment into the future. In other words: If I trust somebody, I am willing to invest into the relationship without expecting a reward immediately.

Finally, trust makes it easier to deal with conflicts since actors are more willing to see conflicts as a sign of misunderstanding than of aggression. They

¹ This perspective is mainly followed by the systemtheory of Niklas Luhmann and others (Luhmann, 2000) See also (Bachmann, 2000)

would prefer “voice”, which means to actively address problems, instead of “exit”, to quit the relationship altogether.

In fact, most of the network literature states that trust is the base of networks, the medium on which networks rely as a third model of coordination beyond markets and hierarchies. And also in the reflection on the practices of existing networks, it's very often said, that trust is the most important key for the success of networks (Dammler, 2007). But most of this literature stays with this statement without going into a deeper understanding of the mechanism of trust, its conditions and the detailed role, different types of trust play in the establishment and stabilisation of network relationships.

Definition of Trust

What does it mean to trust somebody? Different theories have dealt with this question but altogether they come all to more or less the same core: to trust somebody means to let the own behaviour be guided by the assumption, that the other will behave in a favourable way – knowing that he doesn't have to. If I lend my money to a friend on a trust basis, I behave under the assumption, that he will give it back to me in future - knowing that he also can betray me.

This leads to the interesting question, why people behave in such a way? What is the precondition for trusting somebody? Well, maybe because one has made good experiences with this person in the past or with others in similar situations. In this case experiences in the past are taken as the basis for the estimation of future behaviour. This kind of trust is very well known in our daily life: A salesman who made the experience that a customer always paid his dues in the past, will be prepared to give him credit because he estimates the risk of not getting the money back on the experiences he made with this customer previously.

Different Types of Trust

This example however refers to a very special kind of trust. There are many reasons to trust and the basis of trust can be very different. Our salesman makes a kind of calculation: By trusting the customer, he is able to realise gains by selling something. So he is better off by trusting him than in the case that he would not do so, but of course only if the customer doesn't misuse the trust. If that were the case, the salesman would be worse off than without trusting the customer. This simple fact has led to many attempts to come to a kind of formula, which could give an idea in which situations people would trust and in which they wouldn't. Indeed, there is some kind of calculative trust, which makes it more likely that people trust in situations where the damage in cases trust gets betrayed is little, the gain in case the trust is verified is big (Coleman, 1990). In new situations, people very often start with this kind of trust, just to get some experiences. Trust is built up step by step, in a process of trust building.

But on the other hand, there are many situations where people don't calculate and are better off not doing so. The engagement of a babysitter, for example: the gain of having a nice evening out is very small compared with the damage of a possible betrayal. In such cases, no calculation would lead to a positive result. Nevertheless, many parents go out. So trust must find here another basis: cultural norms. People have learned to trust other people, especially those who belong to the same group as they do: cultural, ethnical or social. Actors estimate the behaviour of others not by the experiences they made with this person but on the basis of the belief that he or she sticks to the same rules and values as one self does. This norm-based trust is more likely within homogeneous groups, it is more difficult to establish in very heterogeneous contexts, for example between members of different cultures (Lane, 1989)

Beside that, people very often just trust because it is much easier to do so. That's true in many situations in everyday life: Without some amount of generalised trust (Luhmann, 2000), life would be very exhausting and complex. People would always have to hide if they met a foreigner in the street; every single act of purchase – even in the bakery at the corner – would take a lot of time, since both sides had to ensure themselves not to get tricked. As stated earlier, dealing with a very complex and intransparent world, trust is a good way to reduce complexity. In every day life we routinely trust without any calculation or estimation of the “normality” of the others, we just trust because it makes our life liveable.

Lucky enough, the risk and danger, which goes with this generalised trust can be safeguarded by another basis of trust: sometimes we may not trust in the person, but we trust in institutions which could support us in cases the trust gets betrayed: an effective legal system, a guarantee by an independent organisation, a label which ensures certain controls, etc. This institution based trust is trusting in the possibility of sanctions in the case of betrayal. As soon as sanctions have been executed, the relationship of course is no trust relationship anymore.

Calculative, norm-based, generalized and institution-based trust are four different kinds of trust which get established by different kinds of trust-building processes: by making direct experiences with the other persons, by defining and establishing shared values, by reducing complexity or by trusting in third parties like institutions.

3. Trust in Network Relationships

That is especially important when looking on the establishment of networks, since these different types of trust play different roles in different phases of networks.

There are two main problems in networks where trust is involved in a very special way: in establishing and in stabilising network relationships¹:

Building up a network as such is a wicked problem which, put in a nutshell, consists in the need of somebody having to make the first step. One of the future network partners needs to make an investment without a guarantee of any reward. E. g., if a company approaches other companies to build up cooperation on a shared problem, the first step is to actually make the confession being affected by this problem which can result into a disadvantage. It has to lower its defences and take the risk of giving potential competitors useful information. In this phase actors very often come back to calculative trust: they look for information about the partners – maybe in terms of reputation – and approach each other step by step. Especially if stakes are high, norm-based trust would be ineffective and naïve here. Sometimes there is the possibility of institution-based trust, if for example a third party in which all partners trust brings the partners together. Nevertheless, at some stage they have to decide to trust, which always is a leap into the dark.

Therefore, during the establishment of trust relationships every operation is given additional importance. It is the time of “symbolic control”: every action of a partner is not only taken as information about the partner’s behaviour in the very situation but as a symbol for his interests, motives and his cooperativeness altogether. Since partners don’t know much about each other, they start to collect information by direct interaction. Every disappointment – even if it is only concerning a small detail – can lead to breakdown of cooperation. The development of trust in this phase can be very fragile. Normally, partners act very cautious, they accompany each operation with detailed explanations to avoid any misunderstandings, and a lot of energy is spent in symbolic actions by which they assure their cooperativeness. It is important to invest time and resources in these symbolic actions since they can be crucial for the establishment of networks. At the same time, the partners should not be overstrained with too high investments. They need the possibility to make direct experiences in interaction with low stakes to learn trusting each other step by step.

Not only the establishment of a network is a trust-related task, but also its stabilisation. The biggest danger for existing networks is any opportunistic behaviour of one or more network partners. There are different forms of abuse of networks:

The so called Dazzlers are partners, who pretend to cooperate but actually don’t. Maybe they feed in wrong information, make promises which they “unfortunately” couldn’t realise; console the other partners from one meeting to the next and in the meantime look for their own advantage. They try to actually gain from the network’s outcome without any investment.

Free riders do the same by joining the network at a later stage when all investments have been made and the rewards are ready to get distributed.

¹ See Holwaldt, HJ. / Ellerkmann, F (2007): Entwicklungsphasen von Netzwerken und Unternehmenskooperationen. In: In: Becker, T. et al. (Ed.): Netzwerkmanagement. Mit Kooperation zum Unternehmenserfolg. Berlin / Heidelberg /New York.

Innovations can be taken over, reputation of the network used for their own benefit, knowledge gathered in the network applied. This way, the partner avoids sharing the risks of the establishment of a network but nevertheless gets his piece of the pie in case of success.

Finally the robbers take the pie in full. These partners join the network, invest their part and at some stage leave the network taking the profits with them. Especially in innovation networks, partners for example can patent an idea and so exclude others from using it. Or they could use information gathered within the network to compete against the others.

It is nearly impossible to completely preclude this kind of destructive behaviour. Nevertheless, there are ways of developing institutions within the network the partners can rely on: specific rules get concerted, possible sanctions defined, an arbitration board installed. Again, as soon as sanctions get executed, the trusting relationship to the partner involved has come to an end. But at the same time, the trust into the institution can be strengthened, so that the network as such could work even better than before. Apart from these worst case scenarios, in the course of the daily business of the network, norm-based trust will grow and gradually substitute the calculative trust. The more the partners have made experiences of interaction the more they can come back to information they collected about each other. At the same time, the amount of interaction makes it very costly to always calculate, so there are good reasons to actually rely on the experiences of practically shared values. Trust becomes a broader basis; the relationships are not so fragile anymore.

At the same time, a new problem can arise: Very often the members of a network are also members of a business organisation and therefore act within two different frames. They develop loyalty to the network as well as to their business organisation, which may not necessarily have the same interests. Network members have to account for decisions taken in the network to their business organisations. Normally they are willing to learn from the experiences within the network and therefore are prepared to support required adjustments, e. g. an increase of investments. On the other hand, their business organisation is interested in keeping investments down as much as possible, so they would react more conservatively to these adjustments. If the gap between the dynamics within the network and the business organisation's interest in stability gets too wide, the network might get in trouble. Therefore it is important to involve more representatives of one organisation within a network.

4. Trust-Supporting Structures

This already leads to the interesting question of which organisational structures are supportive for the development of trust (Sydow 1998). One very important aspect is the frequency and openness of communication. Trust will be constituted much easier, if network partners communicate very often and very openly, since it is in communication situations where they can gain information and

experiences. This way it is easier to anticipate the behaviour of others, to develop a common understanding and shared interests. Therefore in networks important to create possibilities for the network members to communicate in many different situations.

At the same time, trust is easier to obtain when relations are multiple and cover not only single aspects but very different areas of action. The experiences partners make are more holistic if interactions are multiple, and so it is easier to assess the motives and interest of a partner. Furthermore, the price to be paid for a betrayal of trust is rising with the multiplicity of relationships.

Trust is also supported by relationships which are long-term orientated and – at least in principle – don't have a fixed date of termination. The "shadow of the future" promises the possibility of many fruitful exchanges and increases the expected rewards of cooperation.

Another very important aspect is a balanced proportion of autonomy and commitment. There is no objective measure for the right balance but it is essential that the members of a network themselves have the impression and feeling of an balanced proportion, so they more or less feel an equilibrium between their own interests and the interests of the network.

But also the selection of participants is crucial: Trust is much more likely in small networks, where members have the possibility to interact very frequently and get to know each other, so the number of participants should not be too big. As discussed in the context of norm-based trust, it is easier to establish trust relationships between members of the same cultural and social group, so the more similarity of the partners exists, the more easily they would start to trust with each other.

And finally, the context of the network plays an important role. If the partners are part of a small community with a high rate of information exchange, the price for betrayal of trust is much higher than if they met in an anonymous and incoherent context. At the same time, if partners don't have many possibilities to act outside the network, their interest to keep the network going will grow.

All these factors promote trust and thereby facilitate the possibility to build networks as an efficient and in many cases advisable way of coordination.

Problematic Aspects of Trust

Nevertheless, there are also some problems connected with trust which make it questionable if it is always the right answer to questions of coordination (Ellrich et al., 2002). First, building up trust is a time-consuming and costly process, a lot of investment has to be made, a lot of interaction without clear results have to be conducted. There might be good reasons for not going that path but to rely on bargaining, where disappointment can be avoided since everybody is clearly motivated by its own interest, or on power, where the own interests can be executed very directly and even against resistance. That's especially true since the establishment of trust is so complex and the result is so fragile. Trust is a very unstable and precarious condition:

the mechanism of symbolic control, as described earlier – every action is taken as an information about the partner all together – makes it possible, that one single disappointment in a special situation can irretrievable destroy the complete trust relationship and foil all investments.

But there are other problems which might lead to sub-optimal results in trust relationships: Deep trust between partners and the high reputation generated in such situations makes it easy to just take over information from each other without controlling it again and without adjusting it to one's own situation. Thereby, phenomena like "group think" get generated: a dominant conviction within a group develops its own dynamics and members believe in it, even if it is not true just to keep the cohesion of the group high. This way false information can persist for a long time.

Furthermore, the dynamics of the network process could trick the partners into always looking for solutions within the network without checking alternatives outside the group. So they miss innovative and better ideas and stay within the same frame of thinking. In this case, the innovative capacity of networks and its weak ties to connect very heterogeneous actors and much differentiated ideas gets undermined by the temptation to generate a group identity by excluding others¹.

These problematic aspects of trust make it feasible, to actually combine trust with a healthy amount of cultivated distrust. Members should not just rely on the network but also stay awake and attentive. Such deep trust / deep distrust settings help to avoid the negative results of a distrust culture on the one side, the destructive effects of mafia-like sleaze on the other side by equally promoting cooperativeness and high attention.

Calculative trust seems to be the suitable answer here: It emphasises the risk aspect of trust relationships and thereby keeps expectations realistic. At the same time, disappointment is not a moral question anymore which stigmatises one partner as a bad player but a question of to high expectations and misleading communication. Furthermore, the fact that members also orientate themselves outside of the network doesn't make them a traitor anymore but is accepted as legitimate way of keeping self-interests viable. Trust and networks are very effective and convincing concepts of coordination, since they make many things much easier, trickle innovation and normally are characterised by high degree of motivation. But they should be handled with care and attention, since used in a naïve and misleading way, they can also destroy a lot of social capital and relationships. That is especially true in situations where underlying power relations get covered by the network label. There is tendency today to actually use "network" as a more friendly description of the old and still effective hierarchical structures. Doing so, a very innovative concept gets undermined by a dishonest and obscure way of application. The results are even more destructive since it is more or less impossible to restore trust which once has been frustrated or betrayed. This way, the future coordination might be much more ineffective than within a clear and obvious hierarchical setting.

¹ To avoid this effect, some authors recommend to member of different networks, so to say to build up a super-network of networks (Burt, 1992). This will help to same stage but of course sooner or later create the same problem on a higher level.

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