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UNDERSTANDING TRUST TO BUILD STRONG RELATIONSHIPS IN ORGANIZATIONS

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Abstract

Trust has been recognized as an essential element for business success today, but at the same time, as something that is difficult to achieve. The increasingly changeable business environment, the pressures on firms to show bottom-line results, and individual economic self-interest are all obstacles to the establishment of stable relationships based on mutual trust. In this paper we try to understand the roots of trust, how to build trust in organizations, and the implications of trust as a source of competitive advantage. First, we analyze the concept of calculative trust, as derived from game theory and transaction cost economics. Second, we expound some basic ideas to develop our concepts beyond calculative trust. Third, we present a basic framework for describing the results and motives of individual actions, and use it to describe stronger forms of trust: integrity-based trust and personal trust. Finally, we draw out some of the managerial implications of the role of trust in reducing transaction costs and creating organizational advantages.

UNDERSTANDING TRUST TO BUILD STRONG RELATIONSHIPS IN ORGANIZATIONS

I. Introduction

Trust has been recognized as an essential element in economic activity. Among other things, it gives people a certain "security" that the people they have dealings with will not resort to opportunistic behavior. Trust is considered an efficient and, therefore, desirable asset to have in any economic activity (Arrow, 1974: 23).

At the organizational level, trust is also one of the most critical elements for business success today. Companies are having to operate in an increasingly interconnected world, in which teamwork is becoming one of the most widespread forms of production. Interdependence among people, demands for information sharing, unity behind common objectives, and unavoidable risk-taking are all activities that need to be dealt with effectively in order to achieve superior business performance. At the same time, the dominant forces in the environment are forcing many firms to go ever further in the process of decentralizing decision-making authority and command of resources (Shaw, 1997: xiii). All of these activities require a high level of trust if they are to be undertaken successfully.

Trust seems to be a difficult thing to achieve, though. In many corporations, rapidly changing market conditions and the consequent instability in the work environment, coupled with policies that widen job disparities and prevent company information disclosure, have created a trust gap between executives and employees.

A recent international survey of 92 companies –mainly American and European– shows that "the most common difficulty corporate managers say they face with their employees is the reservoir of mistrust that has built up during years of upheaval and restructuring in the business community. Nearly two-thirds of the companies surveyed say that management's lack of credibility has been an obstacle in their relationship with employees" (The Conference Board, 1997, Vol. 4, No. 4: 7).

Possibly, one of the reasons for this growing mistrust is the difficulty firms are having in coping with competitive pressures, which usually lead to cost cutting and restructuring. In this new environment, firms are questioning the necessity of almost every job. Many people are being removed from corporate payrolls, and many of those that remain are placed in new roles.

Moreover, these gut-wrenching changes are occurring at a time when profits and executive compensation have reached record levels. Nevertheless, the erosion of trust is more than a response to the downsizing and restructuring of the past decade. What we are seeing is the emergence of a new type of organization that undermines the familiarity required in order to sustain trust. New information technologies are giving birth to what is sometimes referred to as the “virtual organization”, where personal contact among employees is transitory or even non-existent. People are being asked to trust others whom they hardly know; they are also being asked to make themselves more vulnerable to others than ever before (Shaw, 1997: xiv). In other words, dramatic economic and structural changes are making trust both more important and more necessary.

At the same time, among the traits that companies consider critical and that current initiatives are intended to influence, the one that remains weakest is precisely trust. This is no doubt partly because it is difficult to know what to do about it. Companies are discovering that a multidimensional problem such as mistrust is not easy to solve with a single initiative. On the contrary, an integrated set of solutions and the collaboration of a large number of individuals are required in order to effect a corporate turnaround and develop trust. For this reason, although 48% of the companies surveyed consider trust a critical success factor, only 29% of them have taken measures to influence it (The Conference Board, 1997, Vol. 4, No. 4).

The obstacles to achieving trust lie not only in the increasingly changeable business environment and the pressures for bottom-line results, but also in the individual. With individuals driven mainly by selfish economic motives without any real concern for the consequences of their actions on other people, it is impossible to achieve stable mutual trust relationships. Developing trust sometimes requires a trade-off between possible material results and the creation of an internal climate based on affective links among parties. We contend, however, that when individuals are motivated mainly by short-run economic objectives, they are hardly going to be inclined to make such sacrifices.

In short, managers recognize the importance of trust, but they do not know how to build it in their corporation. The importance of trust in economic activity is also widely recognised among researchers, and yet, at the same time, trust has been seen as an elusive concept (Arrow, 1974: 23; Shapiro, 1987: 626-629; Gambetta, 1988: i). Some have even claimed that social science research on trust has created conceptual confusion about what exactly trust is and what role it has in social action (Lewis and Weigert, 1985: 975). Consequently, they conclude, no common definition of trust has been yet accepted (Worchel, 1979).

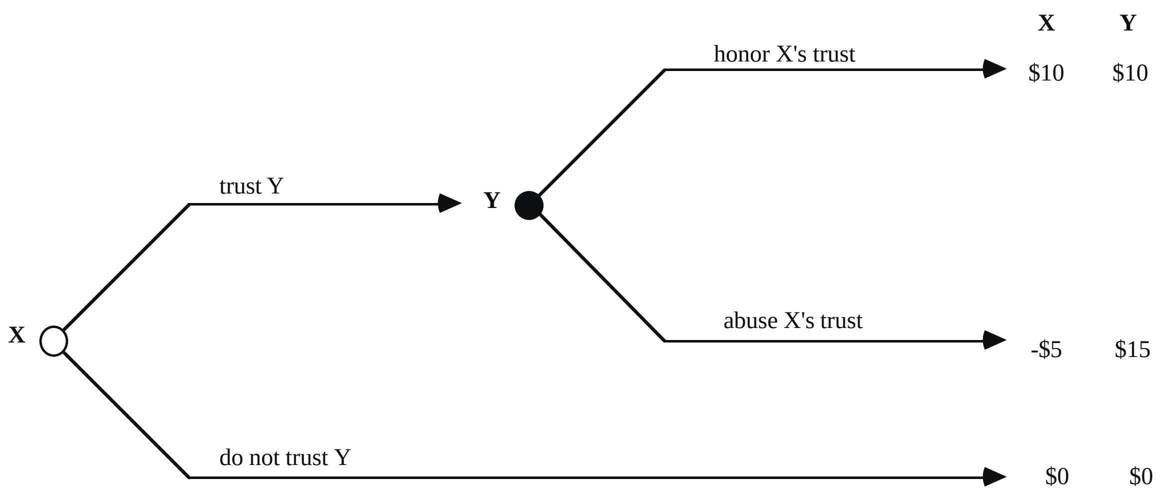
In this paper we try to understand the roots of trust, how it can be developed in organizations, and its implications as a source of competitive advantage. The paper is organized as follows: Section II analyzes the concept of calculative trust as derived from game theory and transaction cost economics; Section III sets out some basic ideas that take our concepts beyond calculative trust; and Section IV presents a basic framework of results and motives on which to build stronger forms of trust. These stronger forms of trust, integrity-based trust and personal trust, are discussed in sections V and VI. Finally, section VII discusses some of the managerial implications of the role of trust as a source of competitive advantage.

II. Calculative trust

Trust has generally been studied following a “rational choice” approach (Stigler, 1950; Laver, 1981), characteristic of calculative and self-interested individuals. This notion comes up particularly in game theory (Dasgupta, 1988; Kreps, 1990). According to this view, trust can be expressed in the following terms: in situations where the risk that an individual X takes depends on the behavior of another person Y, X will trust Y if the expected net gain to X from placing himself at risk is positive and greater than the possible losses from that decision.

Time is a fundamental variable in understanding calculative trust. According to game theorists, calculative trust makes sense in situations where an unlimited number of encounters among individuals are projected. Kreps (1990) analyzes this problem starting with what he calls a “one-sided version” of the prisoner’s dilemma (Figure 1).

Figure 1. The game of trust



Source:Kreps, 1984: 100.

If the game is played only once by individuals motivated exclusively by self-interest, no trust relationship is possible. Individual X has to choose whether or not to trust Y. If X decides not to trust Y, then both X and Y get $0. If, on the other hand, X chooses to trust Y and Y knows this, he can either honor that trust or abuse it. If Y decides to honor that trust, both X and Y get $10. If, on the contrary, Y chooses to abuse that trust, Y gets $15 and X loses $5. Therefore, if this game is played only once, X will not trust Y. In fact, if X trusts Y, the latter must choose between honor, which nets $10, and abuse, which nets $15. Obviously, Y will choose to abuse; and X, knowing this beforehand, will choose not to trust. However, both parties would be better off if X had chosen trust and B honor.

Kreps (1990) shows that when the parties to an exchange move from a one-time game situation to a highly probable repeated game setting, some form of trust may arise. If there is a high probability that the game is going to be played again and again, both X and Y will be better off placing and honoring trust respectively. The discounted value for Y of repeating the game and obtaining $10 each time is much greater than the possible $15 he could obtain by abusing just once. X, in turn, will be willing to trust only if that trust is not abused.

This has been called calculative trust by Williamson (1993). Furthermore, within the calculative approach to trust proposed by game theory it is possible to identify two sub-kinds of trust. In both cases, individuals apply a rational calculation, but the two cases differ in that each party's "security" that the other party will not betray trust comes from different sources.

II.1. Knowledge-based trust

Time, coupled with experience, allows calculative trust to exist, because by repeating a game a number of times it is possible for one party to observe the other party's rule of behavior (Bidault & Jarillo, 1997). In this way, information about Y's past behavior may help X to estimate, and then change, the probability of future gains and losses derived from a mutual relationship. A history of repeated and multifaceted interactions with regular communication allows a trustor to gather enough information and develop a generalized expectancy that the other's behavior is predictable (Rotter, 1971; Lindskold, 1978; Shapiro et al., 1992; Lewicki & Bunker, 1996; Sheppard & Tuchinsky, 1996). Moreover, information may come not only from the trustor's repeated interactions with a particular trustee but also from what the trustor may observe of the trustee's interactions with third parties. Thus, if the trustor calculates both that the other party will not cheat and that his net expected gains will be positive, he will be willing to place his trust in that other party (Tyler & Kramer, 1996).

A classical example of this type of trust is well illustrated by Coleman's (1990) interpretation of Werchsberg's (1966) story about the relationship between a Norwegian shipowner, who on a Friday afternoon desperately needed a £200,000 loan to release his ship, which had undergone repairs in Amsterdam, and contacted his merchant banker, Hambros, in the City of London. Within three minutes the Hambros man had arranged for an Amsterdam bank to deliver the payment. Immediately after that, the shipowner in Norway was told that his ship would be released. Neither signed a contract nor were there any guarantees involved in the operation.

This case clearly involves knowledge-based trust. The amount to be lost was well known to the man in London: £200,000. The potential gains, which were less precisely calculable, were future business from the shipowner. The least well known of the three quantities involved in deciding whether to place trust was the probability that the trustee (the Norwegian shipowner) would keep his word. But this is where knowledge about the other party comes into play. For the manager at Hambros the risk was not as terrible as it might seem to an outside observer. He knew the company, the ship, and even the cargo (Coleman, 1990: 103).

II.2. Deterrence-based trust: The role of safeguards

In many circumstances the trustor's confidence that the trustee will not violate trust may come not from his knowledge of the trustee, but from the presence of safeguards that may deter the trustee from cheating (Deutsch, 1973; Shapiro et al., 1992). Several game theorists (Kreps, 1990; Dasgupta, 1988) argue that *reputation effects* within the social network where the exchange takes place may be considered a particular type of safeguard.

Reputation keeps track of those who violate agreements, and the breaching party loses future business opportunities. If in any particular transaction trust is violated, the trustee's reputation will be damaged and, consequently, potential gains from future interactions will vanish. How inclined Y will be to breach X's trust will depend on how competitive Y's market is. In the context of the market, reputation is the only differentiating factor. Where various Ys exist, competition among them will limit the extent to which they can take advantage of the Xs they deal with. In relatively competitive environments, therefore, individuals "calculate" that investing resources for the purpose of building a reputation for honesty will be highly profitable (Dasgupta, 1988: 70). This means that even if an individual is not an honest person, having a reputation for honesty –or trustworthiness– is a valuable asset that any person would want to maintain.

Elaborating on the idea of safeguards as key instruments for discouraging cheating, transaction cost economists, particularly through the works of Williamson (1993), have suggested, apart from reputation, a wide variety of safeguards that individuals include in their calculations before placing trust in another individual.

Transaction-specific safeguards (governance mechanisms), in the form of severance payments, penalty for premature termination, arbitration, and combined ownership, may be provided by the trustee. Even when no transaction-specific safeguards are in place, the political, economic, social, or corporate contexts in which the exchanges are embedded may provide safeguards of their own –not only reputation– which are different in nature from the governance mechanisms. These *environmental safeguards* are *exogenously given* and can take the form of: 1) *cultural values,* 2) *political values,* 3) *regulations,* 4) *professional sanctions,* 5) *networks*, or 6) *corporate culture* (Williamson, 1993: 268-270). These norms and sanctions, in tandem with governance devices, may prevent potential violations of contracts on the part of the trustee.

One example of deterrence-based trust is that of the Jewish diamond dealers in New York City. Commercial transactions among them were usually described as relationships in which major market deals were "sealed by a handshake" (Ben-Porath, 1980). According to Granovetter (1985: 492), however, the Jewish merchants succeeded in their business activities not because honesty was pervasive among them, but because they were embedded in a close-knit community of diamond merchants who monitored one another's actions closely (Granovetter, 1985: 492) and provided a cost-effective "private arbitration system whose damage awards are not bounded by expectancy damages, and whose judgments are enforced by both reputation bonds and social pressure" (Bernstein, 1990: 35-36, quoted in Williamson, 1993). Within this community, then, each dealer included in his calculations both the expected gains from future business and the potential losses in the form of social rejection and its detrimental consequences for future deals.

Calculative trust is possible if, in the presence of hazards, the trustor is "protected" either by his abundant knowledge of the trustee and/or by transaction-specific and environmental safeguards. Thus, the trustor has the "certainty" that the trustee will not behave opportunistically. Transactions occur because individuals expect positive gains, after including in their purely self-interested calculations both the hazards and the safeguards involved in the transaction. Many authors contend that such an interpretation of trust may be mistaken (Dunn, 1988; March & Olson, 1989). Essentially, that is the reason why Williamson argues that calculative trust is a contradiction in terms, and that a better word for it would be risk (Williamson, 1993). In our view, trust between people can go beyond the calculative approach and establish a much deeper and more complex type of relationship. Furthermore, a fuller understanding of trust would show that it is not only a possible, but also a highly desirable element to have in any business exchange, particularly in the context of organizations.

III. Beyond calculative trust

In order to start to explore alternative ways of understanding trust we need to incorporate some new elements into our analysis and elaborate on others that have already appeared in our previous discussion. One important factor that calculative trust does not take into account is the individual's *propensity to trust.* Additionally, and for the same purpose, two elements that are widely used in the calculative trust literature require further development: the origin and nature of *safeguards,* and the content of *knowledge.*

III.1 Propensity to trust

Certain personal characteristics of the trustor may influence his willingness to trust others (Rotter, 1967; Dasgupta, 1988; Sitkin & Pablo, 1992). Partly, this is due to features of his personality. An individual's *personal philosophy* of human nature is probably the first element that will affect his propensity to trust.

A second factor that will affect a trustor's willingness to trust is his *cultural background.* In describing social action, Max Weber (1922) acknowledges that in many instances people's actions are determined by tradition, i.e. by ingrained habituation to specific cultural forms and values. In the same vein, Granovetter (1985) explains that people are embedded in a variety of social groups –families, neighborhoods, networks, businesses, churches, and nations– against whose interests they have to balance their own.

The third personal characteristic that will influence an individual's propensity to trust is *personal experience* (Handy, 1985: 328). People who have trusted and have been trusted are more likely to have a high degree of trustworthiness (Rotter, 1971).

If a reciprocal and balanced relationship among individuals is established, a system of tacit norms and mutual obligations and expectations of equitable treatment will take shape (Zucker, 1986). Through this process, exchanges become embedded in a social context in which personal and economic needs are intermingled (Bradach & Eccles, 1989). In organizations, such repeated contact along time facilitates long-term commitment (Arrow, 1974), may increase risk-taking behaviors and cooperation (Good, 1988; Lorenz, 1988), and may develop trust (Powell, 1990).

III.2. The nature of safeguards

When Williamson (1993) describes some of the environmental characteristics that can be potential sources of safeguards, he explicitly acknowledges a number of underlying *social values* that sustain these contextual features.

From the viewpoint of calculative trust these values are exogenous (Williamson, 1993). Granovetter (1985), however, argues that "social institutions do not arise automatically in some inevitable form but rather are socially constructed" (p. 98). Societal and organizational values leading to trust creation are created through multiple interactions among individuals in a particular firm, community or market. In other words, the values we observe in particular contexts are one of the by-products of relationships among people.

III.3. The content of knowledge

Several researchers have investigated the kind of knowledge a trustor would like to have in order to place trust in a particular trustee. The characteristics expected of the trustee have often been called conditions or antecedents to trust. Butler (1991: 648) identifies ten such antecedents: availability, competence, consistency, discreetness, fairness, integrity, loyalty, openness, promise, fulfillment, and receptivity. His findings were highly consistent with the work of Jennings (1971) and Gabarro (1978). Sitkin and Roth (1993), in contrast, describe only two conditions of trust: ability and value congruence. In a more recent literature review, Mishra (1996) found four distinct dimensions or components of trust: competency, openness, concern, and reliability. All these conditions can be summarized in three factors: competence, integrity, and concern for others (Mayer et al., 1995; Shaw, 1997).

Competent decision making by managers allows them to be trusted by subordinates. At the same time, a manager will place trust if he has confidence in the subordinate doing the job (Handy, 1985). "I can trust him. He knows the business and he knows how to work with people. He understands organizations. That's why I want him here as soon as possible and in charge of that operation." (From an interview with a company president, reported by Gabarro (1978).)

In general, then, a manager will always need the contributions of other people. From the point of view of calculative trust, however, exactly who those other people are is irrelevant. As soon as the manager finds more capable people to accomplish certain tasks, the first ones are readily replaced. That is why calculative trust is *impersonal*. In contrast, if we allow for the *personalization* of relationships among individuals, the trustor may discover other attributes of the trustee. Specifically, we shall look at two other characteristics of the trustee that determine his trustworthiness.

Integrity, as a source of trust (McFall, 1987; Butler, 1991; Mayer et al., 1995), involves, first, the trustor's perception that the trustee adheres to a set of principles and practices that are acceptable to the trustor. Second, integrity also means consistency (Ouchi, 1981: 101; Butler, 1991; Shaw, 1997) and coherence between the trustee's values and actions. A reliable person, one who abides by his word, will have a high degree of trustworthiness (Gabarro, 1987; Mishra, 1996), whereas incongruence between words and deeds will undermine trust (McGregor, 1966; Sitkin & Roth, 1993).

Finally, trust can also develop if a trustee has some concern for the trustor as a person and not merely as an instrument through whom some explicit results can be obtained (Deutsch, 1973; Pérez López, 1993; Mayer et al., 1995; Shaw, 1997). Some authors have labeled this as benevolence, suggesting that the trustee has some specific attachment to (Mayer et al., 1995), or cares about (Mishra, 1996), the trustor.

Competence, integrity, and concern are three conditions that lead a trustor to place trust in a particular trustee. Each of them represents a particular type of outcome resulting from the trustee's actions, as we shall see in the next section. Calculative trust, in contrast, considers only one of those outcomes: explicit results. The fact that any action can have multiple results may help us understand how a different type of trust relationship can develop.

IV. Three types of result from a person's actions

Any action taken by an individual, whether in the context of an organization or in the context of a market relationship, usually involves at least one other person. Typically, in an organization, a "boss" wants to obtain some specific result through an interaction with a "subordinate" (or, for that matter, it could be the "subordinate" who wants to obtain some result through some action of the "boss"). Similarly, in a market relationship, a "customer" wants to obtain some specific result from a "supplier".

The first set of consequences of the interaction are the results sought, i.e. the variables that prompted the interest of the two individuals in the first place. Thus, if in the context of a firm, one wants to increase sales or decrease costs by taking some action, the first result to be looked at is whether sales have in fact increased or costs decreased. Following Pérez López (1991), we shall call these *explicit* results.

But explicit results are not the only results of the action. The action brings about changes in the two agents themselves, and these changes are also results of the action. Pérez López (1991) calls them *implicit* results. Basically, they consist of the learning the two agents undergo. For any given agent, the implicit results can be either *internal* (related to his own learning) or *external* (related to the other agent's learning).

Learning, in this context, has at least two dimensions. First, there is operational learning: having once obtained certain results in an interaction, the two people involved may be capable of obtaining the same results again with less effort, or better results with the same effort. Second, there is evaluative learning: people may be able to evaluate alternatives better on the basis of past experience; and of course, that experience includes their relationship with the other agent. Trust, and the development of trust, is crucial from this point of view.

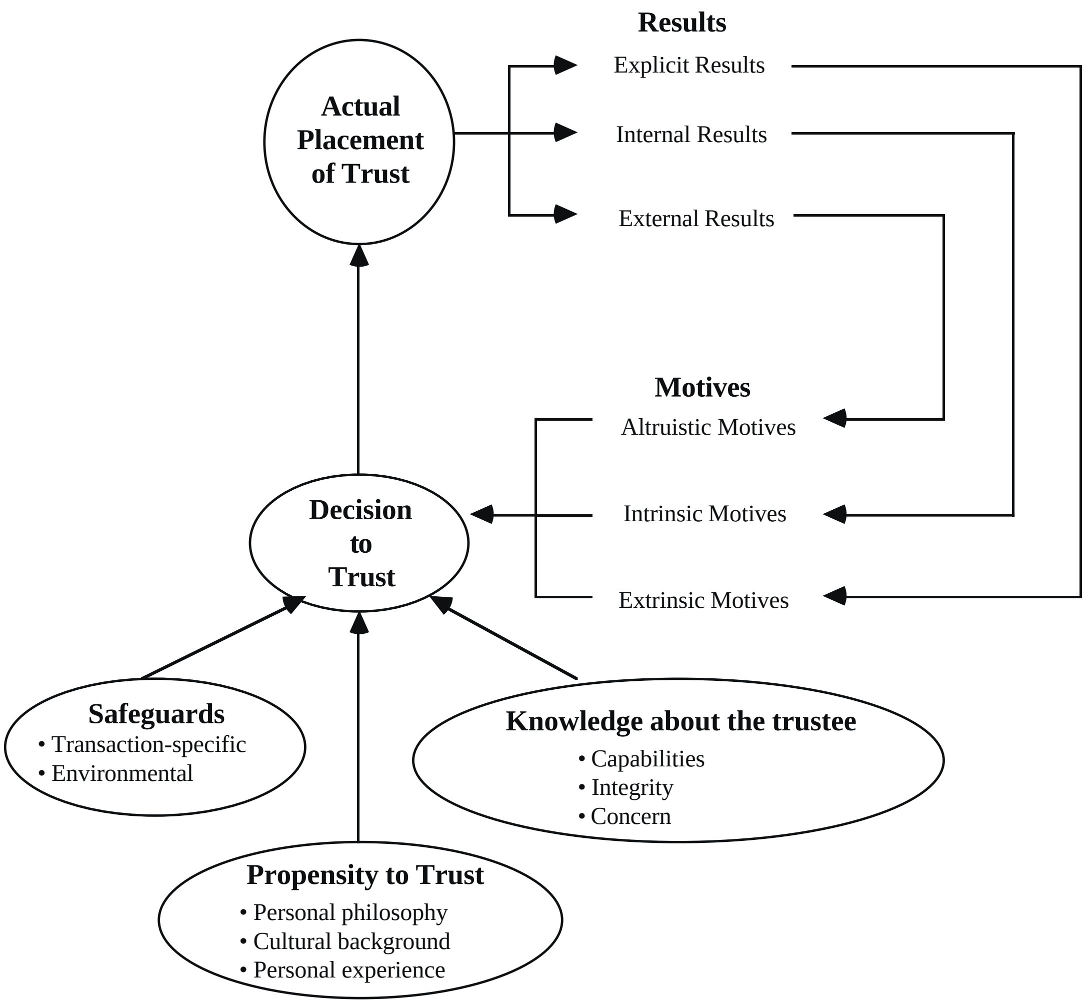
The construction of a legal system, social values and corporate culture, as discussed in the previous section, requires all three types of result. Game theory and transaction cost economics models of trust consider only explicit results. We all know, however, that internal and external outcomes, in the form of personal growth and concern for others, respectively, are probably the most important inputs in the process of constructing these norms and values. If social and organizational values are in some way constructed through the integration of individual interactions in which both trustors and trustees participate, we have another argument to support our assumption about X's three different kinds of result. In fact, the trustor's explicit, internal and external results should be reflected in his competence, integrity and concern for others.

The well-known distinction between intrinsic and extrinsic motives (McGregor, 1960) is of interest for our purposes at this point. Extrinsic motives are associated with the attainment of explicit results, and intrinsic motives with the attainment of internal results. Going beyond that, there is a third type of motive, described by Allport (1966) and Bormann et al. (1979) as *altruism.* This refers to an individual's expectations regarding the benefits his actions will bring to others. In this case, those who do the learning are the other people with whom the decision-maker interacts. With slight differences in their definitions, several authors have explored this type of intentions. Werchsberg (1966) reports the presence of goodwill in his interviews with merchant bankers in the City of London. Lersch (1968) and Deutsch (1973: 158) talk about benevolence. Sen (1977) notes the importance of solidarity, sympathy and commitment in human relations. Frankl (1986) emphasizes the need to search for the meaning of our lives outside ourselves, while Elster (1989) highlights the role of morality. While altruism, benevolence, goodwill, solidarity, and morality point to a certain altruistic detachment from ourselves, they are not exactly equivalent to altruistic motives, since the latter are precisely the ones individuals may be most interested in. A person will never act against his or her own interests. This is not to say, however, that people always act selfishly. Rather, their self-interest can be balanced by interest in the welfare of others. People acting in their own interest can, in fact, go beyond both economic self-interest and/or personal learning, to purposively benefit others through their relationships.

The altruistic motives a trustor may have are directed towards the achievement of *external results*, i.e. a change in the other party's behavior, in order to establish deeper and more stable affective relationships with others. Affective needs are satisfied through the "achievement of suitable relationships with other people, with the certainty that others care for us, that they like us as people, that we are accepted for what we are (and not because we have a particular skill or because we are useful to other people)" (Pérez López, 1993: 59-60).

A person has to consider and balance all his motives simultaneously when interacting with others for trust to be able simultaneously to yield explicit, internal and external results. These three motives, along with safeguards, the propensity to trust and the knowledge available about a trustee will, in our view, shape a trustor's decision to place trust (Figure 2).

Figure 2. Decision-making in trust relationships



V. Integrity-based trust

According to our framework in Figure 2, a combination of a degree of trustfulness with a reasonable amount of knowledge of the trustee and appropriate safeguards may lead a trustor to place trust in a trustee. This form of trust, however, will be almost indistinguishable from calculative trust, apart from the individual propensity to trust, which the literature on calculative trust does not consider. Integrity-based trust, on the other hand, may require all of these elements, plus, more fundamentally, the trustor's *intrinsic motives.*

In previous sections we considered integrity as one form of implicit result; one that the trustor is particularly keen to perceive in the trustee's actions. Intrinsic motives in general, and integrity in particular, take on a different meaning if we analyze the trustor's motives for trusting. For the trustor, integrity means that placing trust in others is the right thing to do; trust behaviors have value in themselves. We do not reject the possibility that this kind of behavior is strongly correlated with the trustor's propensity to trust, given his ethical, aesthetic or religious background. Propensity alone, however, cannot explain integrity-based trust. The trustor is also moved by his personal growth and development, as reflected in his increasing capacity to trust others. He wants to learn from his experience of trust to improve his ability to establish trust relationships. In these circumstances, *learning is integrity-driven.* As a result of his past actions, the individual will be more capable of acting according to certain values –in this case, trust– coherently and consistently in the future. This personal development is a source of satisfaction for the trustor.

VI. Personal trust

Although personal trust includes all the elements that shape both calculative and integrity-based trust, it is based on a fundamentally different set of elements that are not considered by the first two. Three elements are particularly important in developing personal trust: 1) altruistic motives, 2) rationality, and 3) evaluative learning.

VI.1. Altruistic motives

Personal trust arises when the trustor is convinced that the trustee is moved by altruistic motives when interacting with him. Since X cannot directly perceive Y's real motives, he needs to acquire "experimental knowledge", or "learn" about Y's intentions by conducting "experiments" (interactions) with him (Pérez López, 1993). For personal trust to be built, X needs deliberately to test Y's altruistic motives. "How do you have any evidence of their capability if they have never been given the responsibility?" (Handy, 1985). This is, then, a *necessary condition* for the development of X's trust in Y. Indeed, the greater the number of interactions X performs, the greater will be his certainty that his hypothesis is correct (assuming the interactions confirm his hypothesis), and the greater his trust in Y. Conversely, if X does not deliberately set out to test his hypothesis about Y's intentions, he will never find out Y's degree of trustworthiness.

When performing these experiments, X himself is acting out of altruistic motives. The experiments put the trustor in a highly vulnerable position vis-à-vis the trustee. The trustor is not acting on the basis of a profound knowledge of the trustee nor does he have safeguards to protect him against opportunism. Similarly, he is not experimenting on the basis of a certain security regarding the trustee's integrity. On the contrary, the trustor is placing himself in a position where the penalty he will suffer if the trustee abuses that vulnerability is greater than the benefit he will gain if the other does not abuse that vulnerability. In other words, when probing for altruism in another, he is himself guided by altruistic motives. Otherwise, we cannot explain why he takes on risks that are beyond what his knowledge, the available safeguards or even his own integrity would allow.

The experiments, and the actual learning, can be of three types. In section V we described one of them: integrity-driven learning. Intrinsic motives may also be expressed through a second kind of learning, which we shall call *operative learning.* It is oriented towards the development of the trustor's operative capacities or mechanical abilities (Bormann et al., 1979) to produce better and/or less costly explicit results. Operative learning is ultimately directed towards the attainment of extrinsic objectives. A third kind of learning is aimed at expanding a trustor's experimental knowledge about other people. We shall call it evaluative learning as it can improve the trustor's ability to evaluate the motives behind the trustee's behavior. In simple terms, evaluative learning may be motivated by a desire on the part of the trustor to know how to be more useful to others. Personal trust therefore requires this third type of learning.

VI.2. Rationality and the costs associated with personal trust

Evaluative learning requires that *rationality* be incorporated in actions guided by altruism. Rationality is necessary to create personal trust. In this context, rationality is defined not as calculativeness (Williamson, 1993) but as the ability to appropriately design interactions with potential trustees. In other words, an individual's capacity to judge the appropriateness of a particular experiment is determined by his degree of rationality. Altruism alone does not guarantee that an action will be successful in terms of creating personal trust. In the relationship between a manager and his subordinate, for instance, the superior needs not only to be motivated by his subordinate's development (altruistic motives), but also to be concerned about the exact amount of responsibility he delegates. If he gives the subordinate an amount of decision-making power that is out of proportion to the subordinate's level of trustworthiness –as inferred from the superior's experimental knowledge about the subordinate– the superior's action cannot be considered either rational or conducive to personal trust. In this particular case, the manager would be "tempting" the subordinate, far beyond his powers of "resistance", to act in an opportunistic way. If the subordinate did indeed act in an opportunistic way, the relationship would be broken, not because of the absence of altruistic motives, but because of the lack of rationality in the design of the interactions.

In these interactions, the trustor has very little knowledge of the trustee and no safeguards to protect him from opportunism. In other words, the trustor is making himself vulnerable to the trustee, given that his expected net gains do not offset the potential losses. These experiments are therefore not costless. It will always be less onerous, "a priori", for X to implement an action that does not presuppose trustworthiness on the part of the trustee; opportunism is simply avoided. In contrast, a decision that assumes that the trustee will behave in a trustworthy manner for altruistic motives will always be more costly "a priori", even when the same results are expected. In this latter case, the trustor faces costs that do not arise in the first situation.

Thus, personal trust exists when the penalty the trustor will suffer if the trustee abuses his vulnerability is greater than the benefit the trustor will gain if the other does not abuse that vulnerability. Building personal trust implies *increasing one's own vulnerability* on the basis of unverified assessments of the other's altruistic motives –particularly at the beginning of a relationship. Some authors define this initial risky behavior as *personal courage* (Lindsay, 1993). A person's "willpower" will be required to solve possible intermotivational conflicts. If a manager, for instance, does not make sacrifices early on in his career to overcome the temptation to pursue exclusively his extrinsic motives, he will be incapable and bereft of willpower later. He will not develop the capability to make the necessary sacrifices. If the manager wants to find out whether the "subordinate will not take advantage of the opportunity to steal money from the company, when he could do so easily and without fear of detection, and moreover, that he will not take advantage of the opportunity because it would be detrimental to others, there is no other way of testing it than actually making the opportunity available. If the 'hypothesis' is not confirmed, the amount of money stolen is a fairly accurate measure of the 'cost of the experiment'" (Pérez López, 1993: 164). Moreover, the higher the trust X wants to place in Y, the higher will be the cost –financial, in this case– of X's experiment, since he will need to take a greater risk to test his hypothesis.

VI.3. Evaluative learning

Personal trust, we claimed earlier, requires evaluative learning. This type of learning involves making rational and costly experiments to learn –make better evaluations– about other people's motives. If no costs are involved in the trustor's actions, no evaluative learning will take place. In particular, decisions based exclusively on good feelings involve no costs. This type of sentimental behavior may be just as contrary to the development of personal trust as behavior directed solely towards the achievement of extrinsic motives. Some people's generosity may be no more than sentimental selfishness. They are not really performing "generous acts" at all. No real costs have been incurred in implementing the action. In contrast, the experiential conviction that the other "cares about what happens to me", which characterizes personal trust, has to be based on the perception that he is incurring some cost when placing trust in me. Otherwise, my degree of security about his altruistic intentions towards me will be low.

Mutual personal trust exists when the other party is driven by altruistic motives too. Once a decision that assumes that Y is trustworthy has been made, if the assumption turns out to be true, then mutual trust will begin to develop between X and Y. In contrast, if Y acts opportunistically, we cannot conclude that the trustor was incorrect and that it would have been better for him not to make himself vulnerable. This would be true if the only motive behind his action was extrinsic. However, if the trustor's actions are really guided by altruistic motives, then the experiments he performs will have an intrinsic value, since they will enable him to improve his ability to perform more and better experiments and establish relationships of mutual personal trust with other individuals. In this sense, the success of the trustor's evaluative learning does not depend on the other person's response.

Both rationality and evaluative learning skills increase as a result of performing successful experiments, and this growth is the reason for running the risk of incurring costs. Therefore, even when the experiments are not successful, the trustor improves his capacity to perform this type of action. Personal growth –intrinsic motives aimed ultimately at the achievement of altruistic objectives– does not depend on the results of the experiments, but rather on the actual performance of the experiments. In fact, the greater the difficulties encountered in implementing these experiments, the greater the ability –evaluative learning skills– that will be acquired.

VII. Trust as source of competitive advantage

Trust can be viewed as an organizational resource. It can be understood as an asset that facilitates the implementation of competitive strategies that improve a firm's economic performance (Barney & Hansen, 1997). However, not all types of trust can be considered equally powerful as a source of competitive advantage. For a particular resource –trust, in our case– to be a source of competitive advantage, it must be: 1) scarce, 2) difficult to imitate, 3) difficult to find substitutes for, and 4) valuable (Barney, 1991).

Calculative trust, as a source of competitive advantage, has been analyzed by Barney and Hansen (1997). Within their framework, trust can emerge either in situations where there is little room for opportunism (weak form), where safeguards are sufficient to deter opportunistic behavior (semi-strong form), or where partners are vulnerable to each other's behavior (strong form). Only the strong form of trust satisfies the conditions to become a competitive advantage. In our terms, this is possible when reputation is involved and relevant information is private to the partners. Nevertheless, the other types of trust discussed in this note make a more sustainable basis for competitive advantage.

Integrity-based trust can be a better source of competitive advantage because it is both scarce and costly to imitate or substitute, since personal values and principles follow a path-dependent development over time (Barney, 1991). In fact, integrity-based trust involves a more complex level of reputation. However, it is a very vulnerable form of trust as it is not based on rationality. In the extreme case, it assumes that the trustor will behave in a particular way because of his values, regardless of the economics of the situation.

Personal trust has greater potential to become a source of competitive advantage. As we have seen, personal trust is based on: 1) altruistic motives, 2) rationality in decision making, 3) courage to bear the costs of others' opportunistic behavior, and 4) evaluative learning. These four elements together are individual traits not commonly found among managers. Personal trust should therefore be seen as a scarce resource. Moreover, given that it is based on individuals' mutual expectations that they will care for each other, personal trust can be characterized as a socially complex (Barney, 1991) and, therefore, imperfectly imitable asset. In fact, it is this very complexity that explains the elusiveness and the difficulties corporations face when building trust.

There are no substitutes for personal trust. No other form of trust is capable of developing a sustainable environment of mutual trust. Eventually, people in organizations acquire the ability to understand, by means of experiments, other people's real motives. Mutual trust can be achieved only by developing the organizational members' altruistic motives. To create a trusting environment, one has to start by trusting people.

Personal trust, then, is a scarce, non-imitable and difficult to substitute asset. Furthermore, it can provide a firm with *valuable* economic benefits in at least two areas. It may translate into lower governance costs for a firm exploring external exchanges with other companies and/or it may provide a firm, internally, with efficient and flexible combinations of structures, systems and practices that are not available to companies operating with less profound forms of trust.

High levels of personal trust would allow a firm to rely on flexible interorganizational cooperative arrangements such as strategic alliances, joint ventures, research consortia, and networks to gain access to new and complementary resources or markets and secure economies of scale in joint research, manufacturing or distribution. The choice of any one of these institutional arrangements would depend on the characteristics of the transactions and the partners involved. In any case, personal trust would enable firms, even in circumstances in which ex-ante transaction risk is very high (Ring & Van de Ven, 1992), to facilitate and simplify these business relationships, which in the end would mean economizing on transaction costs (Bidault & Jarillo, 1997).

Personal trust can also be a valuable resource for an organization internally. It lies at the root of the problems, as that firms are facing today we reported in our introduction. Personal trust can help to build commitment and cooperation within an organization, facilitating a more creative use of the firm’s resources and fostering learning and innovation (Ghoshal & Moran, 1996). Companies with high levels of personal trust may be able to reduce many of the costs associated with control and monitoring. More importantly, personal trust may enable a firm to share and combine resources and knowledge in unique (more creative and efficient) ways to develop new sources of competitive advantage.

Knowledge sharing and the appropriate deployment of knowledge is a case in point. Although knowledge is important as a competitive resource, its tacitness –difficulty of communicating it (Nonaka, 1994)– and stickiness –willingness of the parties involved in the transfer to actually engage in the process (Park, 1997)– may prevent it from spreading and being exploited throughout a company. These are problems that personal trust can help to overcome, enabling knowledge to flow smoothly and be creatively combined with other resources to build a sustainable competitive advantage.

Finally, the value of personal trust can be considered to be enduring. The collective personal trust embodied in a particular organization cannot easily be acquired or transferred to another organization, making personal trust a valuable and sustainable resource for competing in our interconnected world.

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