

Types of Interorganizational Trust within the Networks of Small Sized Businesses

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Abstract

The purpose of this study is to explore the type of trust that is developed between the small sized firms taking place on inter-organizational networks. The reasons for the trust developed between the discussed firms are thought to be affective reasons resulting from close, primary relationships between the actors. Firms are argued to act under the influence of their cultural environments that they live in and their choices about their trust relationships are forecasted to be born out of their valued emotional relationships. In such a case, the firms doing business in the collectivist Turkish cultural setting should be forming their organizational structure according to the characteristics that of a *fief*, and are assumed to display affective trusting behaviours. Accordingly, these firms are expected to ignore the rational choices and rely upon reasons such as kinship, citizenry and vicinity for developing an affective kind of trust in doing business.

However, in the field research, the results found are interestingly and unexpectedly supportive of cognitive trust dominating the trust relationships of the small sized businesses in the Turkish context. The firms analyzed in the research are positioned on the networks and they use these networks for their own benefits by sending/passing jobs to their counterparts. This process is supported by a kind of trust developed to fulfill mutual expectations, benefits and advantages. In this case, the trust encountered is cognitive trust. Along with the fact that the cultural influences are so important not to be ignored, it would not be incorrect to claim that the small sized businesses display their trust relations according to cognitive reasonings and rational choices.

Introduction

There has been an increasing attention to the importance of cooperative relationships between organizations in the sense that these organizations benefit from the collaborative associations in increasing their competitive advantages against the others. The problems organizations face today are far too complicated and oppressive to solve in the boundaries of the organizations themselves and consequently bear the need of positioning on interorganizational networks (Newell and Swan, 2000). In the organization theory literature, work on networks has been guided primarily by two theoretical perspectives: resource dependence, and related exchange perspectives, and transaction cost economics. Each of these perspectives offers both complementary and contrasting views about the network form (Provan, Milward 1995: 1). Provan and Milward (1995) state that organizations take place in interorganizational networks either for reasons of efficiency related to reduced transaction

costs (Williamson, 1985) or to gain resources and power (Pfeffer and Salancik, 1978) making strategic choices to form or become part of a cooperative network of other organizations when it appears that the advantages to such an arrangement enhanced survival capacity (Uzzi, 1994).

Trust, on the other hand, is defined as one of the most crucial elements, holding the interorganizational relations together. Within the network form of interorganizational relationships, trust requirements are high and the consequences of failing to meet them severe (Creed and Miles, 1996:26).

Trust within and between the organizations has been a field of study for distinct disciplines like psychology, sociology, organization theory and economics. Each discipline attributes different definitions and frame various classifications to the broad concept of trust. Emphasizing the organizational perspective on trust, this study will draw upon the characteristics of cognitive and affective trust (McAllister, 1995) categorization used in the Organizational Trust Inventory developed by Bromiley and Cummings (1995) to measure trust within and between organizations.

Trust in Interorganizational Relationships

McAllister (1995: 25) defines trust as “the extent to which a person is confident in and willing to act on the basis of the words, actions and decisions of another”. He states that the basis of trust in a relation has either cognitive or affective reasons. Cognitive-based trust emanates from passed behavioral patterns which accounts for forecasting future behaviors. McAllister quotes Lewis and Wiegert (1985:970), as “trust is cognition-based in that people choose whom they will trust in which respects and under what circumstances, and they base the choice on what they take to be ‘good reasons’, constituting evidence of trust-worthiness”. Darley (1998), not mentioning the term “cognitive”, reviews this sort of trust as the calculational trust and states that “the underlying assumption concerning human motivation in these theories is that it is self-benefiting, in an opportunistic way, and will capitalize on the opportunity of claiming gains that need not be reciprocated”. He emphasizes that this assumption is associated with economics and will be reflected both in the theory of rational choice and transaction cost economics, in the “realist” school of trust and gives the examples of trading relationships, in which two or more parties contact and negotiate with one another for outcomes that will be mutually beneficial.

Affective-based trust, on the other hand, is associated with emotions felt towards the other party. It is formed due to the intensive interaction between the two parties investing in the mutual and emotional relationship. Caring and benevolent actions (McAllister, 1995; Mayer et al., 1995) are the basis for affective attachment and association that develop the bonds between individuals (Lewis and Wiegert, 1985). Darley (1998) explains this kind of trust as the “non-calculational trust which can be betrayed by an act of the other; the act signifying that the other does not reciprocate the concern for the well-being of the other who trusted in a passionate way, who now feels diminished, rejected cast aside, destroyed by the other”. The characteristics of both cognitive and affective trust are summarized in Table 1. Cognitive trust and affective trust may exist together (Darley, 1998) and in different amounts as well as in distinction.

Table 1: Characteristics of Cognitive and affective trust

Cognitive Trust (CT)	Affective Trust (AT)
Basis for CT are predictability, past behavioral patterns, accuracy, honesty and fairness.	Basis for AT lies in the deepening of the trust relationship between the parties through intense interaction and a reciprocal emotional investment in the relationship.
Parties search for rational reasons to trust the other party.	Trust relies on emotional commitment and thoughts about the opposing party's well being and benefits.
Rational assessment is used to evaluate how the obligations are undertaken reflecting technical competency.	Relationship itself is given an internal value, thinking that the other party feels the same way. The emotional dimension of trust implies showing interest, concern, benevolence.
An objective, rational and methodological process resulting in a judgement about an individual, group or organization's trustworthiness.	A subjective process developed through the emotions, intuitions and moods about the other party's perceived trustworthiness at that moment.
It is about finding <i>good reasons</i> about whether or not the other party is trustable.	It is about developing <i>emotional bonds</i> towards trust.
CG, based on evaluating the other party's technical competence is developed relatively faster. It is developed through reciprocal trust on each other's abilities, competencies and knowledge without building emotional bonds.	The opposite is possible. Social relationships developed between the parties may result in the formation of trust but the parties may not be comfortable about each other's technical competency and knowledge.

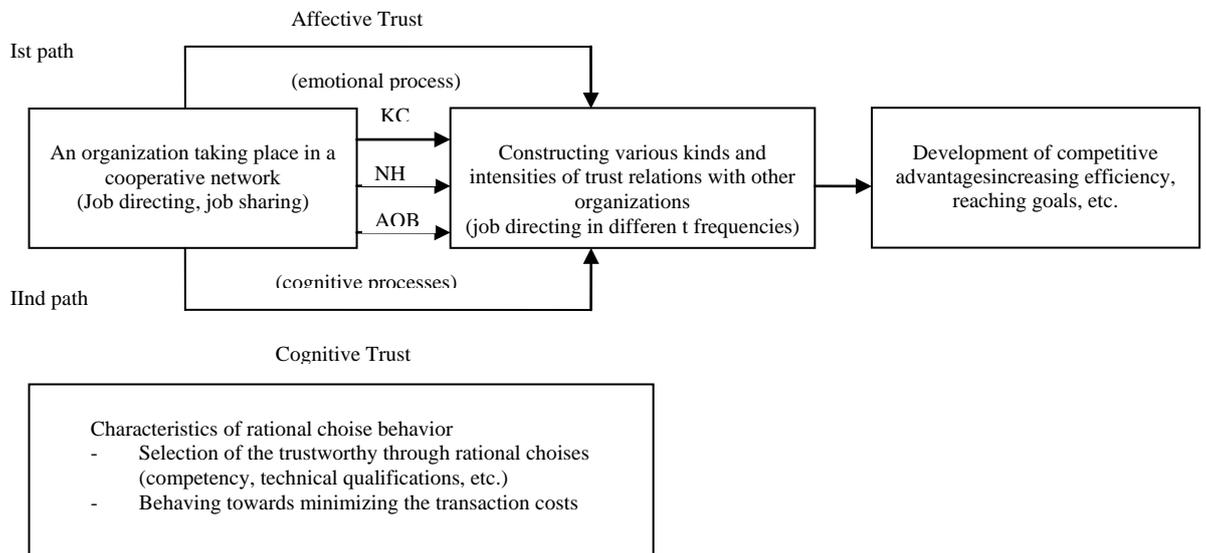
Development of trust among organizations may be through either affective basis or cognitive basis. In the first case, trust is a concept supported by the cultural and institutional characteristics and values. In collectivist cultures (Sargut, 2003) with a high degree of power distance and tendency to avoid uncertainty (Hofstede, 1980) individuals and organizations build relationships through kinship and citizenry (Sargut, 2003) on a contextual basis. They prefer trusting on people they know and practices such as employment, promotions and giving responsibility relies on personal relationships arising from personal bonds, rather than professionalism and person-job fit. In collectivist cultures, trust is developed through in-group relationships.

On the other hand, organizations may choose to develop their trust relationships through cognitive processes. This path is defined on the arguments of the rational choice and transaction cost theories. Actors on the behalf of the organizations make rational choices through calculating the advantages and disadvantages of their activities (Shvarts, 2001), trying to maximize the benefits of the organization. These choices enclose the selection of whom to trust and whom not to trust among numerous organizations. Williamson (1975, 1985) emphasizes the fact that the existence of trust enhances the exchange of resources, facilitates the transfer of knowledge and minimizes the opportunistic behavior, reducing transaction costs of the economic relationships in an organizational network. Trust choices of the actors in this case are developed through cognitive processes of technical and economical rationale. Both paths of trust development are shown in Figure 1. In Figure 1 KC stands for keeping commitments, NH stands for negotiating honestly and AOB stands for avoiding opportunistic behavior which are the dimensions of trust defined by Bromiley and Cummings (1995) and explained in the field study section.

Figure 1: Research Design

Characteristics of “hierarchical feudal” (Boisot, 1986) forms of organizations:

- Collectivist behavior
- Family, acquaintance and clan relationships
- Influences of cultural environment on the development of collectivist trust



Research Design

Trust created through social relationships, in-group bonds and with emotional basis are usually associated with collectivist cultures (Sargut, 2003). Buğra (2001) argues that during the economical and societal development of Turkey, the government acted incompetent in building systems trust, resulting with interventions in the economical activities of the organizations. With the “unresponsible father figure” role of the government, the relationships between the organizations are constructed through solidarity where the primary relationships plays a key role. In such a case, economic exchange relationships are not build with unfamiliar parties. Actors trust in their own acquaintanceships, exchange activities done with familiar others and in-group members appears to be less risky and more secure (Sargut, 2003).

In the Turkish context, the cultural background upholds a collectivist environment with a high power distance and a high avoidance of ambiguity (Hofstede, 1980; Sargut, 2001, 2003). This contextual reality is expected to feed an affective type of trust in interorganizational networks. On the other hand, this research has been conducted among small businesses. When observed closely, small businesses are not smaller copies of their large scale competitors, in contrast, they have their unique and specific characteristics, structural differences, advantages and disadvantages (Van Laere ve Heenne, 2003). Some of the disadvantages of small businesses in literature have been listed as absence of enough experience and knowledge, weak financial resources for growth, deficiencies in professional approaches and practices, limited attainment of economies of scale, narrow opportunities for specialization, limited access to other resources (Hatten, 1997; Scarborough and Zimmerer, 2000; Müftüoğlu, 2002). Small businesses in Turkey mostly hold all of these disadvantages and are usually family businesses with less professional practices. Supported with the

collectivist culture, these businesses are expected to minimize their disadvantages and shortcomings by creating less risky environments through their cooperative networks. Engaging in activities with their acquaintanceships, and with their familiar in-group members, these organizations may be expected to build affective trust stronger than cognitive trust. In other words, the study aims to appoint the path (in Figure 1) chosen by the small businesses to build trusting relationships with other parties. Therefore, our main argument to be hypothesized is;

H₁: Affective trust to be measured among the interorganizational relationships of the small businesses is stronger than the cognitive trust.

Field Study

This inquiry intends to provide empirical results about the type of interorganizational trust developed among small sized businesses through a research conducted among 199 organizations in automotive related industries in Ankara, Turkey. In order to provide empirical validity and reliability in testing the cognitive and affective based trust development among these organizations, an operational tool constructed by Bromiley and Cummings (1995) was used in the field study. Bromiley and Cummings (1995) build their definition of trust directly contrary to the assumptions of Williamson's bounded rationality and opportunism (1975, 1985) underpinning his transaction costs arguments. The authors define trust as an individual's belief or a common belief among a group of individuals that another individual or group (a) makes good faith efforts to behave in accordance with any commitments both explicit or implicit, (b) is honest in whatever negotiations preceded such commitments, and does not take excessive advantage of another even when the opportunity is available.

Derived from their definition of trust, Bromiley and Cummings (1995:305) constructed their Organizational Trust Inventory on three dimensions: keeping, commitments, negotiating honestly and avoiding taking excessive advantage (avoiding opportunistic behavior). In addition, the authors based their theory and measurement of trust as a belief on the assumption that trust should be assessed across cognitive, affective and intent components. They constructed survey items that reflect each of the components for each of the three dimensions of the definition of trust. The original Organizational Trust Inventory consists of two groups of questions measuring cognitive, affective and intent trust with a total of 62 questions. However due to the reason that the intent component did not prove to be reliable enough it was discarded from the survey and the survey was redesigned in a shorter form of 12 questions measuring the affective and cognitive components. The OTI-long form was adapted into an 18 question survey to be used in our research for our own purposes. This adaptation was done after the completion of the reliability and validity testing of the inventory.

The field study was held in the automotive related industry in Ankara, Turkey. The research was designed to observe the use of trust in interorganizational relationships through the process of job directing¹ relationships. In this study, the trust relationships between the job

¹ Job directing is a term used by the small firms among themselves working in the automotive related service sector. By job directing a firm expresses the activity of sending/passing the customer to another firm in their network. These firms are very specialized firms in supplying or repairing a particular part of the automobile like electrical components, automobile head

directing firms are analyzed in the sense that they do not have direct financial benefit relationships but they choose to refer the customer to the trusted others. We are interested in finding out what kind of trust is developed in this kind of a network relationship. 244 network relationships among 199 organizations were included in the research. These organizations were small sized businesses with a minimum number of 1 and a maximum number of 45. The majority of the firms with 86,5 % had employees less than 9. The majority of the firms in the research direct jobs to 1-9 (80%) other firms.

Results of the Research

In testing the hypothesis, independent sample t-test was used. Independent sample t-teste are used to compare the mean scores of two groups in a given variable. The cognitive scale and the affective scale scores were reduced to two single scores in order to be able to compare them. The results of the t-test are shown in Table 2.

Table 2: Results of hypothesis testing

	N (number of observations)	Means	Standard Deviations	Standard Error Mean
Cognitive Scale Total	244	31,19	1,97	0,13
Affective Scale Total	244	26,24	2,84	0,18

Difference = 4.95492* P-Value= 0,000 DoF= 432

* p<0,05

Results show a P-value smaller than 0,005 and the main hypothesis was rejected. The mean of the cognitive trust scores is larger than the mean of the affective trust scores. This is an unexpected and an interesting result indicating that the small businesses subject to the measurement of the scores had cognitive trust relationships with other similar organizations more than affective trust relationships.

Discussion

The Turkish context in which the research was conducted in is surrounded by a collectivist culture (Hofstede, 1980; Sargut, 2001, 2003). With the literature supporting the argument that affective trust best roots in collectivist cultures due to the in-group bonds developed by the citizenry, kinship and friendship relationships our expectation was to

components or staining & waxing activities. In the cases where a customer visits one of these firms for a specific repairment like waxing and needs another operation such as changing an electrical component the waxing firm usually sends/passes the customer to an electrical repairment firm in their network.

attain results in the similar direction. Nevertheless, our hypothesis was interestingly rejected bringing forth the fact that small businesses in Turkey are rather developing cognitive trust relationships with other organizations on their networks.

The reasons for such an unexpected result are worth exploring. In order to overcome strong competitive forces and financial difficulties, traditional small businesses may choose to behave closer to the economical theories reducing their transaction costs and building their trust relationships through rational choices looking after their own benefits. Small businesses will be able to build competitive advantages only through the choice of developing cognitive trust processes. With concerns of integrating to the global world, being able to stand against the foreign firms and especially trying to adapt and upgrade their production quality with those firms in Europe, small businesses may be preferring to choose rational behaviors, technical competency and customer satisfaction over the traditional view of conducting business through family ties, in-group and kinship relationships. The forces and new laws for businesses in Turkey for the EU accession process may have a strong influence over the small businesses to reach the quality and production standards of the European firms and may lead the firms to act more on rational choices rather than emotional relationships. This is a sign of cultural change for the Turkish firms.

Limitations and Suggestions for Further Research

Discussing the results and drawing conclusions upon a the findings of an empirical research, the limitations of the research should not be overlooked. Due to the time and availability limitations, this study was carried on in one sector and in one region of Turkey, namely the auto-related sector in and around Ankara. The sample size of the research was rather inclusive and statistically sufficient. Still using a sample out of the populations may bring about some limitations.

We suggest, for further research to be carried out in different regions of the country and also among different sectors to be able to compare and contrast the results with those of ours. The sizes of the the businesses included in the research may be expanded, giving us an opportunity to compare the results also on firm size level. Inquiries aiming to find results enabling us to compare the findings about the trust relationships of small, medium and large businesses may bring forward different views and perspective about the choice of cognitive versus affective trust among the firms.

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