The Luc Beauregard Centre of Excellence in Communications Research

Trust & communications:
A review of academic research

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John Molson School of Business, Concordia University
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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Trust refers to how an individual perceives another actor as behaving in a way that sustains their relationship through time while avoiding behaviour that focusses on their self-interest and is harmful to others. When there is trust, individuals are willing to rely on others (Rousseau, Sitkin, Burt & Camerer 1998).

Trust is key for organizations because it plays a critical role in enhancing cooperation, reducing conflicts, and decreasing transaction costs (Rousseau et al. 1998; Tyler 2003). This role has become critical given how organizational environments have evolved (Bachmann & Zaheer 2006; Tyler 2003). Organizational environments nowadays are no longer pure bureaucracies where hierarchical and vertical relations, as well as administrative procedures determine how organizations relate to stakeholders. Instead, organizational environments include flat structures, horizontal relations and partnerships, characterized by principles of democracy, flexibility, and civil rights, all of which highlight the relevance of trust.

Trust is of particular importance to organizational communications because it is influenced by how organizations are fair and transparent (through communication systems, financial and social reporting) (Bammens & Collewaert 2014; Elliott et al. 2011, 2018). Beyond organizational communications, trust in organizations also depends on consistent routines and procedures, effective and legitimate governance structures and processes, organizational competence and performance, and empowering and monitoring mechanisms (Kanagaretnam et al. 2012, 2014; Muller et al. 2014; Perrault 2015; Pirson & Malhotra 2011; Sundaramurthy 2008).

Trust is a multilevel construct and involves not just organizations but also individuals and institutions, which influence one another (Currall & Inkpen 2006). At the individual level, trust is shaped by direct, mostly repetitive, interactions. It is grounded in how individuals see each other as being integer, benevolent, consistent, transparent and competent (Pirson & Malhotra 2011). Trust is further dependent on how individuals share goals, norms, values and identities (Sundaramurthy 2008). At the institutional level, trust is shaped by legal, cultural, and normative frameworks that include formal rules and laws, certifications, and informal norms (Bachmann and Inkpen, 2011). Trust is not static but dynamic: it is constructed, maintained, destroyed and re-constructed over time (Rousseau et al. 1998).

Trust can have important consequences. Trust can be beneficial at the individual level (e.g., investors invest more, invest a wider range, and communicate more with entrepreneurs), at the organizational level (e.g., cooperation and knowledge sharing improve, employees are more satisfied, leadership is more effective) (Botazzi et al. 2016, Flumer & Gelfand 2012, Houser et al. 2010, Rousseau et al. 1998). While trust can be harmful (e.g., as shown in Houser et al. 2010, investors who blindly trust their advisors are vulnerable to advisors' opportunistic behaviour), often these harmful consequences are accompanied by beneficial outcomes. For instance, when trust is higher, investors invest more in ventures, which is beneficial for the ventures; yet, the ventures are less successful (because more trusting investors make riskier bets), which harms investors (Botazzi et al. 2016).

This review is organized as follows. Next, we will discuss the concept of trust and how it is understood. We will then elaborate on the antecedents of trust, at the individual, organizational and institutional levels. Finally, we will discuss the positive and negative consequences of trust.

WHAT IS TRUST? MEANINGS OF A COMPLEX CONCEPT

Trust is complex. It involves multiple levels (i.e., individual, organizational, institutional), is grounded in different elements (i.e., calculus, knowledge, identification), can be interpersonal or impersonal, and implicates relationships. We now discuss each one of these aspects of trust.

Levels of trust

Trust spans multiple levels of interactions that involve individuals, organizations (e.g., firms), and institutions (e.g., the legal system). The multi-levelled nature of trust is illustrated by Rousseau et al. (1998), who argue that trust integrates "micro-level psychological processes and group dynamics with macro-level institutional arrangements levels." (p.393) In this review, we are concerned with trust in the context of organizations, where it implicates various internal and external stakeholders (e.g., managers, employees, shareholders, customers, business partners, the public), and the relationships that stakeholders cultivate with each other.

Grounding elements of trust

Trust is grounded in three elements: calculus, knowledge, and identification.

Calculus-based trust rests on the prediction of risks and benefits that characterize interactions. It involves reward and punishment mechanisms that maintain trusting behaviour and prevent a breach of trust. Calculus-based trust is implicated in single and non-repetitive transactions or in the early phase of a relationship (Lewicki & Bunker 1996, as cited in Sundaramurthy 2008).

Knowledge-based trust is shaped by the prediction of how a party in a relationship acts. This trust is built up as the other party, its integrity and competence, become better known over time, in repetitive transactions. It typically involves communication and transparency mechanisms, as well as positive feedback about the relationship.[1]

Identification-based trust is anchored in goals, norms, and values that are aligned in a relationship characterized by repetitive interactions. These relationships are typically spanning the long term and involve parties who bond with each other (Sundaramurthy 2008).

Interpersonal and impersonal nature of trust

Trust can be interpersonal or impersonal. Interpersonal trust develops within direct interactions between individuals; it can be cognitive or affective (McAllister 1995). Impersonal trust relies on fair, transparent, consistent procedures, systems, and mechanisms, typically at the organizational level (Rousseau et al. 1998, Sundaramurthy 2008), as well as legal and normative frameworks, at the institutional level (Bachmann and Inkpen 2011). In most relationships, interpersonal and impersonal trust coexist and reinforce each other. For example, in the relationship between investors and an organization they are invested in, trust is influenced by the interactions between managers and investors as well as by organizational mechanisms (e.g., financial reporting) and broader cultural, normative, and regulative frameworks (e.g., laws protecting investors).

The interpersonal and impersonal aspects of trust both illustrate how trust is processual. Processes are involved in how trust is built between individuals, with the help of procedures, systems and mechanisms, and how trust is maintained, destroyed and re-constructed (Currall & Inkpen 2006, Rousseau et al. 1998). Trust necessitates time, as these processes are deployed over time in repetitive interactions.

Trust within relationships

Trust is bidirectional in that it involves a trustor (who is trusting) and a trustee (who is trusted). Trust is symmetric when the trustor and trustee are interchangeable; it is asymmetric when one party is more of a trustor and the other more of a trustee. A

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[1] Knowledge-based trust can further be split into fiduciary trust (i.e., trust that targets integrity), and competence trust (i.e., the trust that stems from how another party's competence is perceived).

challenge in a trusting relationship involves distinguishing between one's trust in the other party, one's sense of being trusted, and perceptions of shared trust between two parties "that may arise from the reciprocal interplay between one's sense of being trusted and one's own trust" (Bammens & Collewaert 2014, p.1983).

ANTECEDENTS OF TRUST

Trust is shaped by antecedents at its individual, organizational and institutional level, which we discuss below.

Antecedents at the individual level

At the individual level, interpersonal trust develops in the context of relationships (e.g., between organizational colleagues, between employees and managers, between external stakeholders and organizational representatives). The development of interpersonal trust involves a history of interactions between individuals and how identities, values, and rituals are shared among individuals (Flumer & Gelfand 2012, Pirson & Malhotra 2011, Sundaramurthy 2008). While interpersonal trust is fragile, it can be bolstered over time, for instance by competence and organizational trust (Sundaramurthy 2008).

In organizational settings, interpersonal trust hinges on trustworthiness, which has multiple dimensions (e.g., competence, identification, integrity, benevolence, transparency), and on the propensity of trustors to trust (Mayer, Davis & Schoorman 1995, Pirson & Malhotra 2011). Internal and external stakeholders (e.g., investors, employees, customers, suppliers) may value various dimensions of trustworthiness differently, depending on their relationship with the organization, notably its depth and locus (Pirson & Malhotra 2011). For example, stakeholders in a shallow relationship with an organization might place more emphasis on integrity, whereas stakeholders in a deep relationship stress benevolence; internal stakeholders value managerial competence, whereas external stakeholders evaluate trust based on technical competence (Pirson & Malhotra 2011).

Theoretical and empirical studies emphasize how communication and transparency are crucial for building and maintaining trust. For example, transparency and communication can enhance knowledge-based trust, by informing about the ability, integrity, and benevolence of another party. In elaborating how communication shapes trust, some scholars emphasize the role of positive, smooth, clear, and transparent communication (Cameron &Webster 2011, Norman et al. 2010, as cited in Flumer & Gelfand 2012) and the role of the communication interface (Hill, Bartol, Tesluk,

& Langa 2009). Monti et al. (2014) illustrate the relation between communication and trust. They show that amateur investors generally trust their advisors a lot. This trust depends, however, on the advisor's communication style; it is built as the advisor communicates by giving clear, understandable, and satisfactory explanations, and by signalling honesty. Amateur investors' propensity to trust their advisor based on the advisor's communication style can make them vulnerable to opportunistic behaviour, and it can lead them to make wrong decisions. Non-expert investors prioritize the quality of customer–advisor communications (rather than the advisor's performance or level of competency) as well as the risks and returns of different investment options.

Antecedents at the organizational level

Organizational determinants of trust are impersonal and rest on organizational systems and processes (e.g., those dealing with compensation, performance appraisal, and promotion). When systems and processes are transparent and consistent, they enhance the organization's trustworthiness. Two organizational features play a key role in trust: communication and governance.

Communication that is accurate, timely, complete, and credible facilitates the flow of information between the organization and internal as well as external stakeholders, and it enhances trust, especially knowledge-based trust (Flumer & Gelfand 2012, Sundaramurthy 2008). Trust further depends on whether communication flows in two directions, on the medium through which communication is done, and on interactional courtesy (Bammens & Collewaert, 2014, Flumer & Gelfand, 2012). The medium through which communication is done can moderate the relation between trust and communications like financial disclosures. For instance, restatements of financial reports that are announced via an online video, as opposed to online text, lead to greater trust if the firm's managers blame the firm for the restatement and to lower trust if managers blame external sources (Elliott et al. 2011). As another example, consider disclosures of earnings information. Investors' trust towards the firm, and investors' subsequent investments, are highest when the firm's CEO transmits earning information using their personal Twitter account, rather the firm's Investor Relations Twitter account, the firm's website, or the Investor Relations website (Elliott et al. 2018)

Governance furthers trust when it is legitimate and effective; when it promotes integrity and benevolence; and when it is responsive to financial and social issues (Elliott et al. 2011, 2018; Muller et al. 2014; Perrault 2015; Pirson & Malhotra 2011). A firm's governance refers to parties and processes involved in monitoring and advising executives and managers (Mangen et al. 2020). When project managers are given more authority to decide about ethical issues and to implement their decisions, trust between projects manager, project members, and external stakeholders rises, especially when governance is more oriented towards stakeholders than towards shareholders (Muller et al. 2014).

At a higher hierarchical level, the composition of the board of directors also influences the trust of stakeholders in the firm. For example, Perrault (2015) argues that gender diversity shapes trust: the presence of women directors on a board boosts the perception of the board's legitimacy and trustworthiness, and it raises shareholders' trust in the firm. Legitimacy is a precondition for trustworthiness, and gender diversity in the boardroom enhances legitimacy at the board's instrumental, moral, and relational levels. Using the Mayer et al. (1995) framework, Perrault (2015) explains that instrumental legitimacy operates through signalling ability, moral legitimacy affects integrity, and relational legitimacy shapes organizational benevolence.

How organizational trust develops depends on whether relations are repetitive or not. In non-repetitive transactions, trust is mostly calculative; it requires reward, punishment, and empowerment mechanisms (e.g., veto power, ability to express dissatisfaction). In a series of laboratory experiments on trust between investors and investees, Kanagaretnam et al. (2012) show that when investors have the power to veto the investee's responses, trust increases. In contrast, when transactions are repetitive, trust is enhanced through identification processes, shared values, and feedback about the behaviour and performance of the other party.

Antecedents at the institutional level

Trust can be viewed as socially embedded in an institutional context, including in network relationships (Granovetter 1985, Zucker 1986, as cited in Rousseau et al. 1998). Institutional antecedents of trust include legal and cultural frameworks (e.g., formal rules and regulations, external certifications, informal values and norms) that assure trusting behaviour even when there is no interpersonal experience (Bachmann and Inkpen 2011). Legal frameworks that provide rewards and punishments (e.g., rules and regulations) enhance calculus-based trust. Cultural frameworks, by helping predict the performance and behaviour of trustees, enhance knowledge-based trust; moreover, shared cultural norms and values promote identification-based trust. Seen differently, the institutional context, with its legal and cultural frameworks, defines legitimate organizational behaviour and performance, and stakeholders evaluate an organization's trustworthiness relative to this definition. By conforming to institutionally defined behaviour and performance expectations, an organization can signal its trustworthiness (Perrault 2015).

From the perspective of networks, an important antecedent of trust between the firm and its stakeholders is the network that they are embedded in, specifically the structure of the network and the interaction between network actors (Flumer & Gelfand 2012). Networks facilitate communications between actors; they can enhance or hinder knowledge acquisition and performance comparisons involving the trustee. When trust is breached, networks can impose sanctions on network actors. Klabunde (2016) explores how networks shape trust network context. She considers a network of multiple investors who can communicate with each other. Their trust towards an entrepreneur rises and falls depending on how satisfied they are with the entrepreneur's interest payment; dissatisfied investors end their relationship with the entrepreneur.

CONSEQUENCES OF TRUST

Trust can be beneficial and harmful, as we discuss next.

Beneficial consequences of trust

At the individual level, an investor's trust in an investee increases the chances that they will invest, and that the investment is successful (Botazzi et al. 2016, Houser et al. 2010). Trust can also result in greater variation of invested capital. For example, trusting environments (relative to risky environments) encourage participants to make a wider range of investments; motives for trust are not strongly associated with risk attitudes (e.g., risk aversion) (Houser et al. 2010). When trust is breached, investors adjust their investments and shift them from more to less risky assets (Gurun et al. 2017). Breach of trust can also lead to value creation strategies and financial restructuring, which can be valuable for investors (in terms of their returns) and stakeholders (Appelbaum, Batt, & Clark 2013). Finally, trust can increase communications between investors and entrepreneurs; it leads to higher post-investment performance assessment and thus improves the likelihood that a venture will survive and be successful by ensuring refinancing and continuous of investor commitment (Bammens and Collewaert 2014).

At the organizational level, trust is associated with positive outcomes: it enhances cooperation and knowledge sharing, it reduces conflict, and it decreases transaction costs, which can improve organizational performance and competitiveness (Flumer & Gelfand 2012, Rousseau et al. 1998). Between organizations, trust improves satisfaction with the partner and the relationship, it boosts the willingness to support the partner, it leads to a higher evaluation of partner performance, and it increases information and knowledge exchange (Flumer & Gelfand 2012). Within organizations, trust boosts employee satisfaction, effort and performance; it enhances citizenship behaviour, collaboration and teamwork; it makes leadership more effective and negotiations more success; it helps with knowledge sharing and learning, and it facilitates organizational change.

Harmful consequences of trust

Trust can have negative outcomes for relations. When a person trusts blindly, they are vulnerable to opportunistic behaviours. For example, when investors have high trust in managers, they perceive investments as less risky, which allows managers to charge extra fees (Gennaioli et al. 2015). When amateur investors trust their advisors based on the advisors' communication style rather than their performance or competence, or the investments' risks and returns, investors are vulnerable to advisors engaging in opportunistic behaviour and making wrong decisions (Monti et al. 2014).

Dual consequences of trust

Trust can have consequences that are positive and negative at the same time. For instance, Bammens & Collewaert (2014) show that investors evaluate a venture as better performing when they see more trust in their relationship with the entrepreneur, especially when communications with the entrepreneur are good. In contrast, when the entrepreneur perceives higher trust in their relationship with investors, this can yield rigid decision-making and sticking to accepted patterns of behaviour, which can hinder innovative practices necessary for the survival and growth of entrepreneurial ventures. Consequently, investors make a lower evaluation of the venture's performance even in the presence of enhanced communication.

Focusing on an international setting, Botazzi et al. (2016) find that when trust among nations is higher, investors invest more into ventures; at the same time, the ventures are less successful (because higher trust investors make riskier bets). Also, they document that earlier investments require more trust and that, when trust is low, investors rely on syndication and when trust is high, investors use contingent contracts.

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ABOUT THE AUTHORS

Behshad Azodi Deylami is a Ph.D. candidate in Management and Strategy at the John Molson School of Business at Concordia University. Her primary areas of research are institutional change and corporate social responsibility. Her thesis deals with sustainability issues and the evolution of organizational fields.

Claudine Mangen, Ph.D., is the director of the Luc Beauregard Centre. She is the RBC Professor in Responsible Organizations and Associate Professor at the Department of Accountancy at the John Molson School of Business at Concordia University. Her primary areas of research and teaching focus on corporate governance. Her research has been published in leading academic journals, including the Journal of Accounting and Economics, Journal of Accounting Research, Human Relations, European Accounting Review and Academy of Management Perspectives, and it is funded by the Social Sciences and Humanities Research Council of Canada.