IT IS NOT ALL ABOUT TRUST – THE ROLE OF DISTRUST IN INTER-ORGANIZATIONAL RELATIONSHIPS

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It has been consistently argued in prior research that mutual trust is essential for maintaining inter-organizational relationship quality and performance. The mirror side of trust – distrust – has received only scant attention, however. This empirical and qualitative study focuses on the roles of and relationships between trust and distrust in inter-organizational relationships. The results reveal that the two concepts are not merely the opposite ends of a continuum, and these phenomena may exist simultaneously. Moreover, they could both be understood as an essential means of managing uncertainty and risks in relationships.

1. INTRODUCTION

Interest in collaborative arrangements such as partnerships has increased significantly during the last two decades (Contractor and Lorange, 1998). The focus has changed from the transactional and short-term to closely integrated collaborative and longer-term relationships (e.g., Kwong and Suh, 1999; Sahay, 2003; Wong, 1999) as they are seen as a means of improving relationship flexibility and agility, and value creation. Trust is acknowledged to have a crucial role in such relationships (e.g., Dyer and Chu, 2000; Sako, 1998; Miyamoto and Rexha, 2004; Whipple and Frankel, 2000; Johnston et al., 2004; Handfield and Bechtel, 2002). The information age has challenged traditional business logic with the introduction of virtual and networked ways of organizing and managing transactions both within and between organizations (e.g., Bijlsma and Koopman 2003; Venkatraman and Henderson 1998).

Some scholars (e.g., Rotter, 1971; Arrow, 1974; Axelrod, 1984; Lewis and Weigert, 1985; Tardy, 1988) maintain that trust and distrust are the opposite ends of one continuum. According to this approach, inter-organizational trust and distrust are dimensions that are mutually exclusive, i.e. there cannot be high trust and high distrust in a relationship at the same time. On the other hand, others (e.g., Luhmann, 1979; Priester and Petty, 1996; Lewicki, McAllister and Bies, 1998) argue quite the opposite, i.e. that trust and distrust are separate yet linked concepts, which would suggest that both may exist side by side in relationships.

Obviously, the relationship between trust and distrust in inter-organizational relationships is not clear, as there are controversial findings and analysis (e.g., Sitkin

and Roth 1996). This paper contributes to the discussion by reporting on an empirical study on trust and distrust in this context. We begin with a very brief review of the relevant extant literature. Our empirical research was based on short accounts of the role of trust in buyer-supplier relationships. The following research questions were addressed: What are the roles of and the relationship between trust and distrust in inter-organizational relationships? What kinds of factors enhance buyer distrust? Our analysis of the role of distrust is based on Luhmanian's (1979) approach: we emphasize its different function and nature, and acknowledge the fact that it exists simultaneously with trust in inter-organizational relationships.

2. LITERATURE REVIEW

In order to understand the concept and role of distrust, it is useful to assess the ways in which trust affects inter-organizational relationships. Previous research has acknowledged that trust is an essential factor in relationship quality and performance (Anderson and Narus, 1990; Zaheer, McEvily, and Perrone, 1998; Ford et al., 1998; Parkhe, 1998; Barney and Hansen, 1994; Arrow, 1974; Blois, 1999; Ganesan, 1994; Kwon and Suh, 2004). It is seen to facilitate information sharing, open communication, commitment, long-term orientation and conflict management (Blomqvist, 2002; Creed and Miles, 1996), and to increase predictability (Sako, 1994), adaptability (Lorenz, 1988) and strategic flexibility (Young-Ybarra and Wiersema, 1999). It is seen to have a crucial role in managing virtual organizations and in virtual organizing (Venkatraman and Henderson 1998; Kraut, Steinfield, Chan, Butler and Hoag 1999), since the traditional means of monitoring and controlling the other party are lacking (Handy 1995; Bijlsma and Koopman 2003)¹, ii</sup>

The role of distrust has mostly been examined within organizations, i.e. between employees, and between employees and management (e.g., Kramer, 1994 and 1999). Despite its increasing prominence, however, there is a lack of empirical studies on the critical incidents leading to increased or decreased trust in inter-organizational relationships, although there are a few exceptions, such as Robinson, Shaver and Wrightsman (1991) and Mancini (1993). A lack of trust – or low trust – is not usually defined in any specific way (see e.g., Bigley and Pearce, 1998) in these studies: it is rather seen as a situation in which the factors mentioned in various definitions of trust are absent.

As pointed out in the previous section, some researchers (e.g., Priester and Petty, 1996; Lewicki et al., 1998) argue that trust and distrust are separate dimensions, and thus not opposite ends of one single dimension or continuum. Moreover, they are seen as concepts that may appear simultaneously in a relationship (Priester and Petty, 1996). These views rely heavily on Luhmann's (1979) work, in which trust and distrust are considered coexistent mechanisms for managing relationship complexity. The basic point is that low trust and high distrust – and on the other hand high trust and low distrust – are not the same phenomenon.

The main justification supporting the argument for the simultaneous existence of trust and distrust lies in the notion that relationships are multifaceted and multiplexⁱⁱⁱ rather than unidimensional constructs, and moreover that the parties involved are inconsistent and in a state of imbalance^{iv} (Lewicki et al., 1998). Parties in multiplex relationships are interdependent – even if they do not want to be – and consequently they have to interact and coordinate their actions, even against their

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will (for more on this reasoning, see Lewicki et al., 1998). The multiplex nature of relationships leads us to a state in which one party has different opinions and views about the other – in terms of capability and goodwill, for example . Ultimately, this reasoning leads to the presupposition that trust is a multi-dimensional phenomenon – one person can trust another on certain issues but not necessarily on others or in different contexts (Blomqvist, 2002). In other words, the target of trust may vary in a relationship (Misztal, 1996). Since trust – and therefore also distrust – is a multidimensional phenomenon, the obvious argument is that they may both exist in these multiplex relations.

The fundamental assumption in these views suggesting that distrust is not the other end of the trust continuum, but is essentially a distinct (although naturally related) dimension, is that "trust is good, distrust is bad". This thinking is far too black-and-white, and neglects "the other half" of containing and managing uncertainty and complexity. Luhmann, (1979, 72) stresses this by referring to distrust as a "positive expectation of injurious action". In so far as it is an expectation of injurious action from the other party, distrust simplifies the social world, "allowing an individual to move traditionally to take protective action based on these expectations" (Lewicki et al., 1998). In other words, it is also an essential component of rational acting, especially in effective (economic) organizations.

All in all, it is proposed here that trust and distrust are distinct phenomena, and that they may exist at the same time in inter-organizational business relationships. Moreover, both are considered fundamental conditions in terms of managing uncertainty and complexity.

3. DATA ANALYSIS AND RESULTS

The empirical study was qualitative in nature and was based on large corporate industrial buyers' short accounts of well-functioning and poorly-functioning buyersupplier relationships. The buyer company has several thousands of suppliers. Many of these supplier relationships are collaborative and partnership-type, rather than traditional arms-length buyer-supplier relationships. An industrial buyer needs to handle several hundreds of supplier contacts. Key suppliers act as system suppliers with their sub-suppliers, and therefore the large corporate production is truly networked. Broadly defined, an organization is virtual to the extent that it outsources key components of its production (Gallivan 2001) by means of ICT-enabled infrastructure (see e.g., Kraut et al., 1999). The case company collaborates mainly virtually with its supplier networks. The end product in question is a physical good, the manufacture of which involves major information flows (Rayport and Sviokla 1995) between hundreds of parties. Much of the information flow in ICT-enabled information networks, such as in EDI and CAD/CAM applications, supports interorganizational information exchange. Consequently, the majority of the stories described collaborative relationships rather than traditional arms-length-type buyersupplier relationships.

The accounts were collected during two internal seminars for industrial buyers held in a global metal manufacturer in 2003 and 2004. The buyers were asked to write short stories in which they should analyze the role of trust in well-functioning and poorly-functioning buyer-seller relationships. The assignment to write stories did not refer specifically to trust and distrust. The respondents were asked to write

about their experiences of well- and badly-functioning collaborative relationships in relation to trust, but they were not specifically asked to describe or analyze the connection, or the difference, between the concepts of trust, lack of trust, and distrust. They produced 25 accounts of well-functioning relationships and 27 of poorly-functioning relationships. We chose qualitative content analysis (see e.g., Berg, 2004, 265-298) as our analytical tool. In broad terms, content analysis includes any kind of technique for "making inferences by systemically and objectively identifying special characteristics of messages" (Holsti, 1968, 608). We first organized and grouped the manifest content of the data into common categories, and then we condensed and summed the incidents into categories built up from earlier research. Finally, we re-examined the data for more latent content (Berg, 2004, 269).

Network relationships were referred to in several stories. This was not considered purely positive, however: if the supplier cannot handle deliveries as agreed it inevitably causes delays and problems for all parties in the supply chain.

"One bad thing is that our supplier also has its suppliers - and if the supplier's supplier's supplier turns its customer down, it will be reflected in the whole supply chain..." (a poorly functioning relationship)

In the great majority of the stories, trust was seen to be an essential and critical success factor in the relationship between organizations, and open information sharing and communication were considered prerequisites for the development and maintenance of trust. Similarly, factors and incidents related to lack of trust (e.g., lack of communication, inadequate information, promising too much, and hiding problems) were among the most cited in accounts of relationships in which trust did not develop, or was lost. Keeping promises – in terms of delivery dates, prices and quality, for example – was also seen as a critical factor enhancing trust.

On the other hand, if the supplier did not keep its promises it had a clear negative effect on perceived trust. The majority of the buyers also mentioned the important role of personal relationships in developing trust, but somewhat unexpectedly, poor personal relationships were not as clearly seen as a factor hampering trust in the other organization. This applied especially to distrust vi, as poor personal relationships were not mentioned as causing distrust in the seller party. This suggests the presence of organizational trust in addition to personal-level trust. Furthermore, unidimensional dependence was seen as a critical factor hampering trust, even leading to distrust in the buyer-seller relationship.

Five of the 25 accounts of poorly-functioning relationships mentioned cases in which the supplier had either suddenly increased prices quite a lot, or had made smaller increases gradually. Some of them also recalled situations in which the supplier tried to charge for more goods than were actually delivered. Unreliable deliveries (delays, quality problems, delivering the wrong products) were the most frequently mentioned trust-hampering factors and incidents in the stories.

The buyers were not asked to differentiate or analyze the concepts of trust and distrust as such. Nevertheless, there were some interesting notions about the role of distrust embedded in the stories, as illustrated in the following quotation:

"...A certain amount of distrust keeps you sharp, though, and this way you will question things, and not take everything for granted. This forces you to check everything, and the possibility of making mistakes is smaller." (a well-functioning relationship).

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Another account of a well-functioning relationship (about a transport company that had always responded remarkably well to all demands and changes) ended with the comment:

"It makes me wonder whether we are paying them much too much for their transport services!" (a well-functioning relationship).

In both of these stories, trust was considered essential for the functioning of the relationship. They thus supported both of our propositions - that distrust is not a phenomenon that affects the relationship only negatively, and that trust and distrust exist simultaneously.

We then proceeded to examine the data more in-depth in terms of its latent content in order to find out whether trust and distrust indeed were considered to exist simultaneously, thereby supporting the assumption that they indeed are distinct concepts. In this we relied on Luhmann's (1979, 72) reference to distrust as the "positive expectation of injurious action" to separate it from lack of trust. The latent content analysis revealed the simultaneous presence of trust and distrust in interorganizational relationships. This came out in two ways: firstly, there were relationships in which the buyer did trust in the supplier's competence, but not in its goodwill, for example, and in some relationships there was trust in the supplier, yet the buyer felt distrust at some level (which s/he considered to be a sign of rationality).

Thus, our data gives indications of the simultaneous existence of trust and distrust in inter-organizational relationships and in buyers' perceptions of their suppliers. It also suggests that the role of trust may be more direct and more easily described and understood. Moreover, it is clear that the role of high trust in well-functioning relationships is acknowledged to be fundamental in relationship performance. It seems that the quality of communication and information sharing, i.e. timely and honest informing about expected problems in keeping promises concerning delivery dates, for example, are particularly strong factors enhancing perceived trust in the other party. The absence of these factors was seen to hamper trust - in other words it lead to a lack of trust in the relationship.

Again, distrust could be seen as a phenomenon largely resulting from unmet expectations. It quite clearly often led to a weakening in the quality of the buyer-seller relationship, and ultimately to its dissolution. Moreover, as noted earlier, unidimensional dependence was also seen as a factor causing distrust. In some cases, the above-mentioned factors leading to a lack of trust eventually also resulted in perceived distrust of the other party to the relationship.

The positive side of distrust as a complementary means of managing uncertainty in the inter-organizational relationship was directly mentioned in only two stories. This also came out in the latent content of the accounts, however. Furthermore, the simultaneous existence of trust and distrust was mentioned several times, thus supporting our assumption that they may indeed exist side by side. Their relationship is evidently quite complex and ambiguous, yet it clearly exists and is therefore worth studying more deeply.

4. DISCUSSION

The objective of this empirical study was, first, to investigate the roles of and the relationship between trust and distrust in inter-organizational relationships, and

secondly to identify factors that enhance buyer distrust. Even though the empirical part of the study was conducted in only one industrial branch and context, it could be assumed that the results will hold in wider contexts. The findings support the argument that trust and distrust can be conceptualized as separate – although related - concepts, and thus not merely as opposite extremes of a single concept. What is even more important is that they may exist at the same time, and both are effective – in different ways – in terms of reducing complexity and uncertainty in interorganizational relationships. We therefore propose that they should both be understood as a means of managing social complexity and inherent uncertainty in this context.

On the basis of our empirical findings, we argue that *distrust* in interorganizational relationships could be seen as active belief in one party's willingness to engage in behavior that is aimed at exploiting the other party's vulnerabilities. Again, *lack of trust* is perceived as being more passive, yet not so reasoned and rational: it is more an evaluation of the other party's trustworthiness. Moreover, lack of trust was generally not believed to cause the dissolution of the relationship, although it may have made its development more difficult and slow. Whereas the absence of or shortcomings in communication, and inadequate information sharing, were acknowledged as factors causing lack of trust, the effect of unmet expectations was evident in causing distrust, thereby accentuating its active nature. On the other hand, in some cases the separation between lack of trust and distrust was not made quite clear, suggesting that there is still a certain amount of conceptual haziness surrounding these two concepts.

Limitations and suggestions for further research

Taking a one-sided approach to a dyadic collaborative relationship limits the value of any study, and we could have gained a more holistic picture by gathering data from both parties. Moreover, by using in-depth interviews instead of short and quite open accounts we might have obtained more in-depth information.

The limitations of the present study lead us to suggest some approaches for further research: the use of in-depth interviews and quantitative surveys, and the gathering of data from both sides of the relationship, could be fruitful in terms of gaining a deeper understanding of the roles of trust and distrust and the connection between them.

Moreover, as the conceptual clarification and separation between lack of trust and distrust remains somewhat blurred, there is a clear need for more theoretical and empirical research. Finally, as trust is argued to be a highly context-specific phenomenon, the same is presumably true of distrust, its antecedents and consequences. Therefore, conducting empirical research in other inter-organizational contexts, settings, and levels would be useful in order to increase the generalizability of the results of this study.

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ⁱ Handy (1995, 41) acknowledges this, noting the managerial dilemma taking shape in the question, "How do you manage people whom you do not see?" He goes on to state that virtual organizations are based more on trust than on control.

- ii On the other hand and quite on the contrary to the common argumentation Gallivan (2001) claims that effective performance may be achieved in a virtual organization in the absence of trust, and that it may rather be a matter of ensuring control over the other party. Although we strongly disagree with Gallivan's argumentation about trust being unnecessary in relationships within and between virtual organizations, we acknowledge the connection between the need for a reasonable amount of control and monitoring, and distrust as a means of managing uncertainty in all kinds of relationships.
- iii In all relationships, there are several ways in which the parties relate to each other. Moreover, they may have different experiences of various aspects of the relationship. In the inter-organizational context, there are several actors in each party, all with different capabilities, intentions, and ways of interacting with others. One party might trust another on a certain matter, but not necessarily on others. Consequently, there cannot be one, unidimensional and all-encompassing characterization of the other party in the relationship: it involves several and often complex constructs.
- We do not normally have complete and adequate information about the other party: bounded rationality causes uncertainty and a lack of balance. As we face a continuous flow of information that we need to process and absorb, we are able reach a state of balance only transitionally, and not consistently.
- Trust is commonly acknowledged in existing research as a multi-dimensional phenomenon, usually comprising rational, (e.g., capability/competence/ability/expertise and predictability) and attitudinal (e.g., goodwill, benevolence, reciprocity) components (for more on this, see e.g., Blomqvist 2002; Seppänen, Blomqvist and Sundqvist (forthcoming)).
- vi Situations of distrust are different from those of low trust, as there is reasoned and rational fear, skepticism, and wariness. On the other hand, when there is a lack of trust or low trust there is a more passive characterization of the absence of hope, faith, and confidence.

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