Transcript TrustTalk interview Reinhard Bachmann

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Voice-Over: Welcome to TrustTalk. Today's guest is Reinhard Bachmann, Professor of International Management and the founder and director of the Center for Trust Research at SOAS, University of London. He is one of the pioneers of trust research in the field of management theory. In his publications, he contributed to the development and design of trust research. He is a member of the editorial board of the Journal of Inter-Organizational Relationships and a member of the Review Board of the Journal of Trust Research. What role does trust play in inter-organizational relationships, both vertical like supply chains and horizontal relationships, like all cooperative relationships between organizations? He talks about the role of power, about system or institutional trust, and the role of trust in merger and acquisition transactions, and why trust plays a major role in the failure of many M&A or joint venture deals. Trust isn't always positive. There are dark sides of trust, especially blind trust. Trust can suffocate innovation, taking away incentives to compete. Your host today, Severin de Wit.

Podcast Host: Professor Bachmann, welcome at TrustTalk. Before we go into trust and relationships between organizations, I would like to share a little story I told my introductory podcast about trust when I started in 2020. A major conference was organized to discuss all aspects of trust, a proper agenda was made, people were ready to discuss trust in all its appearances, and then the conference chairman suggested to first get everyone to agree on what trust is. And I guess you feel what happened, the only thing that was debated during the whole day was the definition of trust. So this reminds me of what Oliver Williamson, the 2009 joint winner of the Nobel Prize for Economics, said about trust, and I'm quoting him, "trust is a common word, but without a common meaning".

Reinhard Bachmann: Yes, I think this is right. There's actually limited consensus about what trust is, although I would say there are some common themes which run through all the definitions that I know on trust. A big difference makes the angle, the disciplinary angle from which you look at the phenomenon. So what I mean is a political scientist would define it in a way different from what an economist would say or a sociologist or a psychologist. So you see, the problem of trust

is that there are so many disciplines which are interested in the phenomenon. Traditionally, it was seen as a psychological phenomenon, especially if we look at interpersonal relationships, but in the management field, of course, there are many more dimensions than just the psychological dimension. So what counts is the context in which trustors make their decisions, and a lot more factors come into the equation. It's not like in the early days when psychologists made some experimental research on trust. It is a huge field, meanwhile, where a lot of disciplines contribute and present studies and so forth. So this is something which makes it so difficult to get a handle on it. And on the other hand, it's also common with many things in the social sciences where you need to understand the scholarly terminology. So it is a difference, of course, from the ordinary language when we use trust, so there's a lot of theory behind it, there is a lot of empirical findings, and that all contribute to some common ground, again, I think there is some common ground there.

Podcast Host: Yeah, we probably come to that later in when we're talking about some of the elements of trust, right? Because in your Handbook of Trust Research that's edited by yourself and Akbar Zaheer, trust is described as follows: trust involves two principle concepts reliance and risk.

Reinhard Bachmann: Yes, I think risk or sometimes also we speak of uncertainty, is, of course, a key concept and category, here. A trustor always needs to run a certain risk, namely that his or her expectations can be disappointed and consequentially there can be some significant losses if trustor has misplaced his trust and trustor and needs to be vulnerable, because if you are not vulnerable, then the whole concept of trust doesn't make any sense. You don't need to trust if you're not vulnerable, you don't need to trust if you want to avoid any kind of risk. And another point of course, is that a trustor always makes positive assumptions about the future behaviour of the trustee. So I think these are common themes that run through all kinds of definitions of trust. Also, we work on the basis of limited knowledge. So if you know everything you don't need to trust, if you know nothing then is also stupid to trust. So you're operating in a field where there's limited knowledge, so that is also goes back to the earliest definitions of trust, which we have, I think this is common sense, irrespective of what discipline you belong to.

Podcast Host: What I miss in the definition we just talked about or people talk about are the factors that I think your colleague, Professor Sandra Sucher, mentioned in the interview I had

with her in February of this year, that is, competence. Both technical and managerial, motives, means and impact. She used the example of Uber to clarify what she meant by those factors. What would be your take on those elements? Competence, motives, means and impact?

Reinhard Bachmann: Let's take the first one, competence. There is also well-established literature and scholarly knowledge on different dimensions of trust and what can trigger trust, but also on the other hand, what can ruin trust. And here we come to issues such as competence, but also integrity, which is a big difference. So you can trust someone on the basis of competence. You trust someone that he or she is competent enough to fulfil a certain promise, or you focus on integrity so someone can completely fulfil your criteria of integrity but is incompetent. So if that's the case, then it's a different situation with regard to trust, then, if that is the other way round. Someone can be very competent, but basically a crook and not trustworthy. And there are other people who would also add a third dimension, which is benevolence, so this is well established. The main difference here is really competence versus integrity. But when it comes to the other factors, motives, means and impact, I think these are all factors that show that trust is normally occurring in a certain social situation. So it's situated and embedded in an environment and their motives of trustors come into the picture, what are the means that you have as a trustee in case you are put under pressure by the trustor, which is also possible, so it's not only a very positive thing, so trust can also put you in a situation where you feel obligations which you are not comfortable with. And also the impact, of course, is another factor which shows that the environment in which such situations where trust plays a role are situated, these environments are most crucial. So it's not only the trustor and the trustee as two people, there is also a third sphere, which is very important with regard to how trustors make their decisions, and that is the institutional, cultural environment. And here we talk about motives, means and impact, I think.

Podcast Host: Let's talk about trust within and between organizations, that's the core of your expertise, right? Is it fair to say that research in that area is to produce insights into why organizations enter into relationships with one another and what role plays trust in that process?

Reinhard Bachmann: Yes, I think this is absolutely correct. I mean, when we talk about inter-organizational relationships, there are two different types of inter-organizational relationships. One is vertical relationships, so these are supply chains and then they are horizontal relationships

in all kinds of corporate relationships between organizations if they are business organizations in a similar stage of the value creation chain of a certain industry. So we have vertical basically supply relationships and horizontal relationships. Especially when it comes to vertical relationships, in which context I discovered the role of trust really in the 1990s, when I was a post-doc at the University of Cambridge, I was involved in a study on vertical relationships. It is interesting to see also the dialectics between trust and power. In a vertical relationship, there is usually also a very powerful part. This is why I always included in many of my contributions and writings the category of power and try to figure out what the relationship between trust and power can be in inter-organizational relationships.

Podcast Host: So taking that a little bit further, what is the relationship between power and trust in the vertical column, as you describe it?

Reinhard Bachmann: It is very much dependent on the business system if we talk about business organizations. What we found and that's many years ago, as I said, in 1990s, but that is still debated and there are still a lot of empirical attention, the political economy literature differentiates between different types of capitalism. So there's the more liberal capitalism which we have in the UK, and there's the more coordinated capitalism. And a coordinated capitalist system would mean that there are a lot of general rules to follow as a business organization, for example, and that would put you in a situation where individual power is not necessarily key to success in your business. So it is more a form of power which is cushioned into a tight legal system, a tight system of institutional arrangements. And there we speak of system power and we have a form of trust which has sometimes also be called system trust by Luhmann or institutional trust by others. And if you come to the more liberal capitalist systems, then there's a lot less general regulation, so that means that you have to develop trust more at the interpersonal level. And also power is more a thing which is attached to the potential of a single individual rather than that it can be attributed to the system. So surprisingly different, even though geographically we are so close the UK and continental Europe, but it also has to do with different legal traditions, like there's common law and there is civil law and we have common law in the UK and civil law in Europe and common law means that there are very few general rules to follow as a business person or business organisation, and therefore it much more depends on the individual competence or guile or whatever you have in order to get your interests represented in contracts and in the relationship as a whole.

Podcast Host: One of the things that help listeners to understand these rather abstract research findings is to give real-time examples of failed or successful trusted relationships between organizations. Would you be able to give an example?

Reinhard Bachmann: Yes. When we look at business organizations, then we have a wide field of mergers and acquisitions, for example, where you need to integrate two organizations, and especially in the case of acquisitions rather than mergers, we don't have equal partners. So if you happen to be in the management or in the workforce of a smaller acquired organization, business organization, it is not uncommon that you distrust the other side because it could cost your job, it will certainly involve things changes which you can't foresee and you may not want to accommodate. So that is a wide field and there are examples of acquisitions which went well and others not so well. Surprisingly, a majority of acquisitions does not work very well. And one of the things is that there is a lack of trust from both sides and there are misunderstandings, there's a problem of integrating different corporate cultures, for example, so this has caused a lot of problems, in many cases, empirical cases. But then there are also strategic alliances and joint ventures where there's extended literature on it, joint ventures, the same problem in principle, but this is where two organizations, business organizations, come together just for one specific project, so they are not completely merging only a part of their business for a certain period of time, but the problem in terms of trust is the same. It depends on whether the joint venture is equity-based, where you put in money and can lose money, then it makes it even more complicated sometimes. Another example, if you think back to the, what they call the global financial crisis, was actually not a global financial crisis, but it was a Western financial crisis in 2008 where banks didn't trust each other anymore after the collapse of Lehman Brothers in 2008. So that can create a lot of disruption and there's really extended literature with a lot of examples what happens in the case of failed trust or ruined trust. There is a lot of literature on scandals which has ruined trust between organizations, but also between customers and organizations. And that's part of the trust literature where we look into all kinds of industries and all kinds of inter-organizational relationships. So there's plenty of examples there.

Podcast Host: Following up on what you just said, there seems to be a distinction in your publications between personal trust and organizational trust. It sounds easy to understand trust

between two persons whereby the agent is doing something for the principal, as it is sometimes described in scholarly literature, which is different from trust between organizations. Is it as easy?

Reinhard Bachmann: No. This is much more complicated when you look into the details and study empirical cases. First of all, when we talk about organizational trust and we think about trust in an organization, then it seems to be essential that sometimes you need to see, as Anthony Giddens has said in one of his famous writings on modernity and trust into the whites of eyes of people. So you have to have access points to the organizations, and that needs to be persons. Sometimes you have to see real persons who represent the organization. So if it's just an abstract organization and you would not associate any human face with it, it would be very difficult to trust it for many people. So that's one thing. So you need access points, you need representatives for the organization and these needs to be persons, which then you take as representatives in the sense that you bestow trust on the whole organization that this person represents. On the other hand, when we talk about impersonal trust, I think it has two meanings. And again, empirical cases can illustrate this very nicely. So either it means that you, in the end have trust in an organization, so you trust a big company like Shell or BP or Volkswagen or whatever. Another thing is that you can have trust to another person or trust in another person in the face of a specific organizational structure. So that would bring in these external factors, these environment, which can help to increase or facilitate trust between individuals. So you see, the difference is either you trust directly in an organization or you trust someone else and knowing that this person is embedded in certain organizational structures and limits or channels his or her behaviour in a certain way and thus makes it more predictable.

Podcast Host: We see trust always as a good thing, sometimes like something to strive for and to maintain. There have been numerous studies showing that trust is not always desirable. For many, this may come as a surprise. Does it also come to you as a surprise?

Reinhard Bachmann: No. There is indeed quite a bit of literature on the dark sides of trust. Trust certainly can suffocate innovation, especially if we talk about blind trust. So it takes away incentives, individual incentives to innovate, to compete with others. If you are in a network which is strongly based on trust and you have, for instance, a supplier over many decades, you are happy with the supplier, you are not trying to find new suppliers, which would entail transaction costs. But on the whole, it can also lead to situations where you miss out on chances,

innovation chances or chances to put yourself in a better situation vis-a-vis your competitors. And also look at the financial crisis of 2008, which was so disruptive to the Western economies. There was a trust crisis among banks and also banks and customers after the failure of the system, but before it was hugely fuelled by too much trust, I would say. Remember these situations, I don't know whether you had the same experience that I had, but a lot of people got approached by financial advisers and you were very happy to believe that you can make huge profits and you trusted financial advisers and gave them loads and loads of money. There was clearly too much trust. If there hadn't been that much trust by many financial services customers, I wonder whether the financial crisis would have ever happened. So there's also more literature now about distrust more recently, which can be also very useful in many situations because at the end of the day, what trust does, I think, is in the words of Niklas Luhmann, to reduce uncertainty and in this sense also in the systems' theoretical terminology, reduces complexity and what this means is that you can connect your interactions with other people in a swift and effective way. But you can also do this with distrust on the basis distrust you can also very quickly interlink, align your assumptions in a social situation, and get in a situation where you can effectively interact. And that's really what I think is the core of trust, namely a means to coordinate expectations and interaction. There are other means to do this as well, and distrust is sometimes as well as power discussed in the same way. These can be functional equivalence in the sense that they can reduce uncertainty and allow people to align their expectations and effectively interlink their actions and thus create a huge complex in a positive sense, complex social systems, which we all know.

Podcast Host: Most of my interviews, Professor Bachmann, end with a question I would also like to ask you, and that is how do you see the future of trust research? What are the challenges ahead, the coming years?

Reinhard Bachmann: I think what has changed compared to the 1990s when this interest in trust in the management field started and afterwards really exploded is that we have a lot more surveillance technology available today. So there would be a lot of organisations that would today say we don't need trust because we can control our operations much more closely by technical means than we would have done in the past. My employer could monitor all my work that I do at home every strike on my laptop they know. And there are many, many examples where organisations could say, look, I'm not dependent on trust, I'm not dependent that you work according to the contract which you have signed, working from home has become very

important during the recent pandemic, and so there are a lot of organisations that would say control is actually possible and that's the way to do it. And you can look into every lecture theatre. If you are the dean of a university, you can check everything basically. If you go to a hospital, they make videos of your operations, you can check it. So, all this was not possible in the mid-1990s, so it could lead to the question of trust becoming obsolete. My answer would be no, not at all. Because what we need is if you control everything very tightly in the work process, in families and in all kinds of social situations, what we would lose is creativity. So if my employer would control me, I don't think I would be very creative in my research work. And that goes for many other fields and organizations as well. So I think that would be a very bad advice to an organization to revert to a situation where trust didn't play a role. So that was in the early days when they invented assembly lines and Taylorism was meant to work completely without trust. But only in the 1980s there were new production concepts discussed and there was the example of the car industry in Japan, where workers were involved in all kinds of quality circles and so forth, so where they essentially got rid of these rigid assembly lines and showed that they were much more productive. So that was in the 1980s where trust was not on the agenda yet, but you could almost foresee that it would lead to this extreme interest in trust in the 1990s. And if we are now reverting to the system, which we had about 100 years ago, which was described in the literature, as Fordism and Tailorism, the assembly lines where every minute of your work was completely regulated, then of course we don't need trust anymore, but it would also decrease productivity. I think creativity and goodwill is always a part of a superior performance.

Podcast Host: Let's hope that we don't lose that because that's the oxygen of our existence, isn't it? Professor Bachmann, thank you very much for being available today for the podcast, thank you for your insights. I wish you good luck with future research and got me also some ideas to focus on next podcasts, for example, trust and power, I noted that, and trust in the financial world. These are interesting subjects. Thank you very much and wish you all the best.

Reinhard Bachmann: Thank you.

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