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Building Interpersonal Trust in Business Networks: Enablers and Roadblocks

Mila Hakanen¹, Leïla Kossou² and Tuomo Takala³

Abstract

Purpose: This study examines how interpersonal trust forms in business networks and anchors relationships. Trust can be seen as a required factor and enabler for co-creation that is needed when business models are created. This study draws on empirical data from a case study of a Finnish business network in the healthcare and pharmaceutical industries. It seeks to answer the research question: How does interpersonal trust start to develop at the business network level and how it can be supported?

Design: This article draws on a case study of a Finnish business network which was developed through theme interviews and observation conducted in 2012.

Findings: The findings support existing research on interpersonal trust, and emphasize three key characteristics of interpersonal trust building: (1) It is a slow process that can be easily discontinued by definite roadblocks. (2) It requires that the parties have knowledge about one another and a rapport; that they show respect and fairness, keep their promises, and most importantly, communicate effectively. (3) It should be based on shared responsibilities among the network members. The key finding is the importance of informal meetings that is not highly noticed in the research field. Informal meetings support more the building of we-spirit and crazy ideas that are important when new business models and innovations are built.

Research limitations / Implications: This case study considers one business network in Finland. Further research would be required in order to generalise the findings on a larger scale or to other contexts.

Originality / Value: Despite the significant attention given to interpersonal trust in management literature, less research has focused on understanding how it forms in inter-organisational settings. Moreover, the focus is usually in dyadic relations in network studies but this study focus on the level of whole network.

Keywords: Business networks; Business Modelling; Communication; Distrust; Networking; Social Capital; Trust

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Introduction

The increasing relevance of business networks has led to burgeoning theoretical and empirical research over the past couple of decades (Miles & Snow, 1986; Nohria, 1992; Sydow, 1992; Klein, Palmer & Conn, 2000; Lorino & Mourey, 2013). Growing interest is towards intra- and also inter-organizational network dynamics (Van de Bunt & Groenewegen 2007). Business modelling is an important area in networking. The business modelling includes business model tools, such as Balanced Score Card or the Value Prims that concentrates on offered service, customer segments etc., in addition, the concentration should also be on business collaboration aspects, such as trust (Heikkilä et al. 2014).

Interpersonal trust has long been regarded as the backbone of business partnerships (Deutsch, 1958; Blau, 1964; Oxendine, Borgida, Sullivan & Jackson, 2003). According to this literature, interpersonal trust can be seen as the legitimate anchor of trust more generally (Lewicki & Bunker, 1996; Williams, 2001; cited by Simon, 2007). Initiating interpersonal trust appears to be a challenge in many business networks. The elusive nature of trust (Abrahams, Cross, Lesser & Levin, 2003) and the fear of sharing information in a context of potential conflict between individual and collective interests, (Dussauge & Garette, 2009; Le Roy, Yami & Dagnino, 2010) may impede the success of business networks, including the process of business modelling. Newly established business networks require initial interpersonal trust. It is therefore crucial to understand how interpersonal trust forms in business networks, before tackling the issue of how to maintain it.

A few researchers have demonstrated the strong correlation of interpersonal trust with variables such as cooperation and communication (Whitener, Brodt, Korsgaard & Werner, 2006). However there has been very little research on the links between interpersonal trust and business networks (Malhotra & Murnighan, 2002) or on the initial formation of interpersonal trust in such settings. The literature has instead focused on the initiation of inter-organisational trust (Akgün, Byrne, Keskin, Lynn & Imamoglu, 2005; McKnight, Cummings & Chervany, 2006; Whitener, Brodt, Korsgaard & Werner, 2006) and interpersonal trust within organisations (Abrahams, Cross, Lesser & Levin, 2003).

This study is intended to advance understanding on how interpersonal trust starts forming within business networks, in the level of whole network that is not so well-researched area. Usually the main attention in trust building research is in dyadic relations. Human and Provan's (2000) study founded that it is important to focus on internal and external legitimacy and support in the early stages of evolution of networking and they argued "*At present, network researchers in business, public management, and health care services have only a marginal understanding of whole networks, despite their importance as a macro-level social issue.*"

This study draws on a qualitative case study of a Finnish business network in the health and pharmaceutical industries. The discussion provides theoretical and managerial insights on interpersonal trust formation, which found that it is a slow and fragile process, requiring definite interpersonal elements, and involving responsibility. This study highlights the importance of informal meetings and personal chemistry. This article also provides practical guidance and recommendations to business networks about the nature of interpersonal trust formation.

Theoretical Background

Trust, enabler of cooperation and networking

Trust has been identified as a major area of social capital, if not its most essential element within business network processes (Putnam, 1993; Ilmonen, 2001; Erdem, Ozen & Atsan, 2003). Social capital exists in connections among individuals with trustworthiness and reciprocity (Putnam 2000), and affects the performance of business networks (Batt, 2008) by promoting productivity (Coleman, 1988) but also by facilitating the development of knowledge and innovation (Productivity Commission, 2003) that are two important areas in the networked business models (Solaimani & Bouwman 2012). Social capital can be seen including the levels of trust, the density of network relations, knowledge of the relationships and obligations and expectations inside the network (Pennington & Rydin 2000).

Trust is defined in a dictionary as a firm belief in the reliability, trust and strength of a person: a confident expectation and a reliance on the truth of a statement without examination (OED. 1996). Like social capital,

trust is also a wide concept. It can be examined from many perspectives and at several levels: individual, organisational, network and societal (Batt, 2008). Trust starts to build through communication and cooperation (Harisalo & Miettinen, 2010: 23-29) and typically develops over a long time (Barnett et al., 2010: 647). Sigfusson & Harris (2012) study dialed with the international entrepreneurs and they defined that: *"Trust is the individual, personal trust between the IE (international entrepreneur) and the relationship, reflecting a calculation of the trustworthiness, knowledge of the party involved and affection between the parties - trust always - included aspects of knowledge of the other party, such as honesty, value and reliance, or affective qualities, such as closeness and family ties."* Lee and Choi (2011: 97) developed a theory of trust as having initial and on-going forms. Initial trust is based on an assumption that *'being a member of the organisation is enough to assess the trustworthiness of an individual'*. It does not relate to experience of the individual actions of others, as trust towards the group generates trust towards its individual members. On-going trust is dynamic and changes over time, based on a belief about the partner's reliability and integrity. Calculus-based trust focuses on assessments of the benefits or

costs involved in deciding whether to trust and cooperate, and is not based on emotional or intuitive factors (Deutsch, 1962). Generalized trust concerns of affiliation or reputation instead of direct knowledge. This kind of trust can be referring to trustworthiness. De Wever et al. (2005) have divided trust into fragile (calculated) trust and resilient trust and they stated that the resilient trust is more positively related to network effectiveness than fragile trust - for example, less strategic resources are gained. They also divided trust into another category: to dyadic and generalized trust and they argued that dyadic trust have better influence to network effectiveness than generalized trust. When partners have a direct knowledge about each other, they are more willing to share and transfer knowledge and resources. (De Wever et al. 2005.)

Figure 1 (below) integrates the areas of social capital and trust. Trust is one dimension of social capital with communication and community. Trust can be divided into levels of individual, network, organisational and societal. This study only concentrates to individual and network level. Individual trust includes initial, on-going, calculus-based, generalized, fragile and resilient trust.

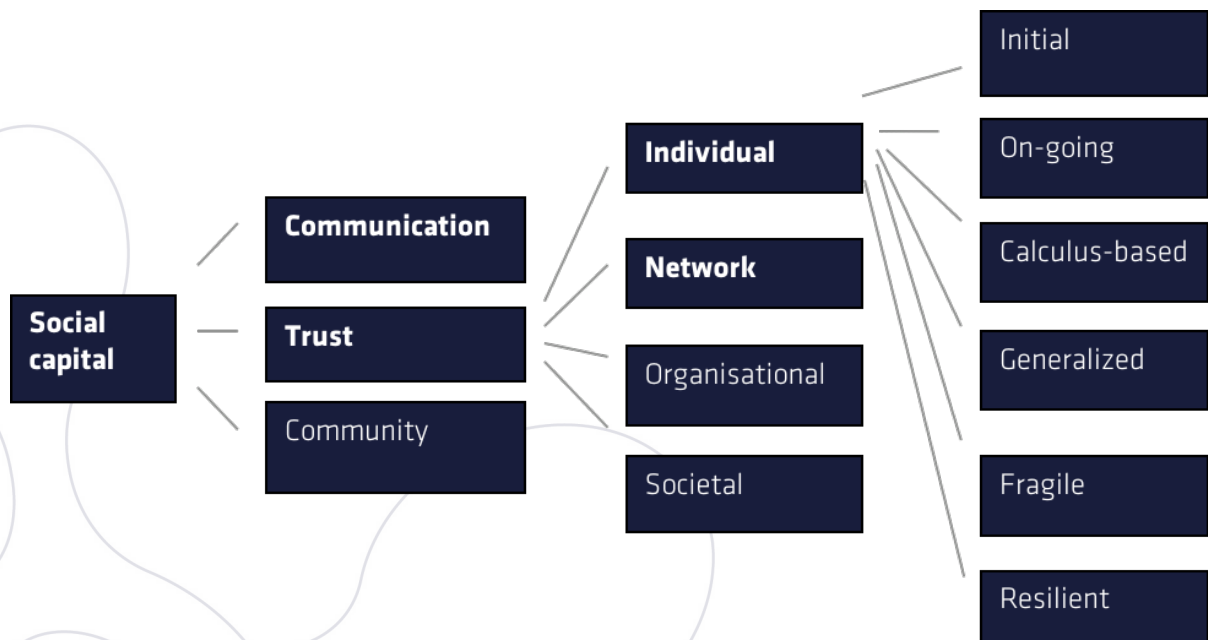


Figure 1: From social capital into the dimensions of trust

There are many definitions for networking because it is very broadly research area in many disciplines, for example in strategic management, organizational theory and business studies. "Research has shown that business relationships and their subsequent networks are as diverse and complex as the individuals who participate in them" (de Lurdes Veludo et al. 2006). Trust is a needed factor when companies decide to join business network and create a new business model. Trust is an enabler for transferring and receiving resources (De Wever et al. 2005.)

Trust and openness provide the basis for developing a strategic partnership and the strategic network needs constant communication between its members to work effectively. It is important that the partners have the same understanding about the current state of the network as well as its vision and targets that are among the most important areas in business modelling. The network will be under on-going development (Valkokari et al., 2009).

Interpersonal trust at business network level

Initial formation of interpersonal trust

Trust is a broad concept, so this study focuses particularly on interpersonal trust, which is seen as a central characteristic of knowledge creation and sharing needed in business development (Abrams et al., 2003). Interpersonal trust needs behaviour that is not only guided by self-interest, but also by their partner's wellbeing, which needs to be acknowledged (Lindenberg, 2000; Nooteboom, 2002). In much of the literature, interpersonal trust is defined as the willingness of a party to be vulnerable. Benevolence is one of the most important dimensions in interpersonal trust and is based on caring for others and being interested in their wellbeing and goals. Time is an important aspect in trust building: "As time goes by the relationships tends to become deeper and the uncertainty between the parties decreases." (Camén et al. 2012).

Enablers and roadblocks of interpersonal trust

"The management of relationships is an important issue that actors need to consider." (de Lurdes Veludo et al. 2006). The study reveals how trust building can be supported in network where organisations differ in generalised trust: 1) frequent communication between network members that can be enabler for knowledge-

based trust, 2) common platform for communication and 3) presence of intermediaries that understand the both cultures if the organisations are from different cultures (Gerbasi & Latusek 2015). Also 'rightness' is a key element of trust building that can be seen in the manner the partners share, their methods and processes, and their communication style. Trust is very high linked with commitment. When parties are committed, they invest to cooperation which improves trust. The risk of opportunism reduces. Some trust level supports that the commitment will be made in the first place but it can be decided also without trust. (Wuyts & Geyskens 2005). In trusted relationships, it is easier to express constructive criticism (Barnett et al., 2010: 647). Evidence of commitment to a long-term relationship encourages trust building. Reciprocal relationships require both cognitive and affective aspects of trust (Barnett et al., 2010).

With the presence of trust, the partners are willing to take a risk and transfer available strategic resources (De Wever 2005) and focus on the general logic of business, including the areas: business value, the customer segment, service, organisation, technology and financing (Bouwman et al. 2008).

Communication as an enabler for trust

In an atmosphere of trust, people share their opinions and ideas more freely but also warn about potential threats (Harisalo & Miettinen, 2010: 38-41.) Distrust is the biggest barrier to effective communication (Harisalo & Kilpi, 2006). Communication raises awareness of people's identities and can also explain the reasons underlying their choices and viewpoints (Harisalo & Miettinen, 2010: 61). Dialogue is the most advanced form of communication that requires trust. It contains open communication and idea sharing that generates new knowledge (Harisalo & Miettinen, 2010: 88) that is needed element in business modelling (Heikkilä et al. 2010). It is important that individuals can share not only the facts but also their feelings, needs and desires (Barnett et al., 2010: 652). However De Wever et al. (2005) argued that in the certain point of frequency of interaction, the interaction can become distracting when partners focus too much to development and maintaining of interaction so that the focus is not more in strategic resources.

Distrust

Distrust means a lack of trust that is based on experience or information. It can grow as a consequence of insufficient communication (Harisalo & Miettinen, 2010: 48). Unjustified criticism about others can lead to distrust. Moreover, avoiding one's responsibilities, stealing others' ideas and revealing their secrets encourage distrust to grow (Reina & Reina, 1999: 144).

In business networks, distrust has strong negative effects on results. It grows when actions are inconsistent with words and promises, as partners cannot trust one another's words or assume reliability. Unintended distrust can arise when the parties have a different understanding of the aims and vision of the enterprise. As the process goes forward, distrust starts to solidify among the parties and people begin to avoid the distrusted persons, causing members to grow apart. Even trivial matters can be difficult to resolve (Harisalo & Miettinen, 2010). Distrust increases the frequency of unforeseen events because consistency deteriorates and this reduces the likelihood of innovation and productivity (Harisalo & Miettinen, 2010: 52-53).

Harisalo and Miettinen (2010: 53-55) outline the ideal process from distrust to trust as comprising six phases: 1) open communication, 2) constructive debate, 3) listing the causes of distrust, 4) solutions, 5) transferring to action, and 6) continual assessment. At the outset, the parties should be honest and ready to genuinely listen without prejudice. They should be willing and able to express how they have experienced and interpreted things, then they can express their viewpoint on given situations and explain the reasons for their actions. The third phase implies listing together the causes for distrust. The next phase is about co-creating ideas for resolving and strengthening the relationship. Thereafter, the ideas have to be put into action. The last phase includes a continual assessment of the relationship.

Building Trust in a Business Network in the Finnish Healthcare and Pharmaceutical Industries: A Case Story

Context of the case

This study draws on a Finnish government-funded re-

search project that started in June 2011 and ended in May 2014. It focuses on a Finnish business network involving companies in the pharmaceutical and health care industries. The network started the business creation process in the fall of 2011, aiming to deliver sustainable business solutions for contemporary health, exercise and wellbeing (HEW) problems, in Western industrialised countries. Two of the case companies are small size and other two large size. Some of these companies have also other shared business activities that are begun before this new cooperation model.

This network is mainly concerned with preventing health problems (such as obesity and type 2 diabetes) by developing products and service innovations, such as "exercise prescription". The network examined is creating business models and developing growth ventures with Finnish HEW expertise.

Methodology

Typically, a case study produces in-depth description of one phenomenon (Robson, 2011:40) and concentrates on the dynamics within single settings (Eisenhardt 1989). In this study, the dynamics were studied by concentrating on the meanings expressed by interviewees about these dynamics so the main focus was in the actor's own perspective. The main aim of this study was to find out how network partners felt about the initial phase of networking, and more precisely, their views about interpersonal trust at this stage. The case network was chosen to research object and this pragmatic case study was implemented in a Finnish business network to provide tools and guidelines about interpersonal trust building for the studied network. This study followed a case study protocol that comprises five sections: the purpose of the study, data collection, report outline, question outline and evaluation (Yin 2014). Because the object was to understand the interpersonal trust in a specific business network, the interviewees were chosen by this project were the network was in the early-stage. One of the interviewees was the project manager from the university team and the others were from the management level of network partners. The results could be utilized in practical management by taking into account the enablers and roadblock of initial trust building in network level when the company is starting a new network-level cooperation.

The main research data was collected through interviews with representatives of the companies in the network and the secondary data was collected by non-structural observation. Thematic interviews are usually relevant when research aims to study and describe the interviewee's own experiences, feelings and emotions. These interviews covered a few selected themes in a semi-structured style (Merton, Fiske et Kendal, 1990; Hirsjärvi & Hurme, 1995). Themes were chosen by analysing the experiences of the interviewees and examining the earlier studies. The interviews were held in the fall of 2012. They were semi-structured, face-to-face interviews which lasted one hour on average. Four depth-interviews were conducted consisting of three main themes: the current state of interpersonal trust, enablers of trust building, and inhibitors and road-blocks.

The data was analysed by theme-based content analysis. Thematic coding can be used as a realistic or constructive method. In this study, a realistic method was chosen to report the interviewees' meanings and experience about the phenomenon. (Robson 2011.) The data collection and analysis overlapped in the research process.

Findings and Discussion

The current state of interpersonal trust

Some of the network partners spoke about positive experiences they have had with their partner organisations where they have reached win-win situations together: 'The building of trust is based on shared success and also actions matching with words.' Trust is developed through shared successful operations and promise-keeping. 'We have kept our promises.' This study revealed that where initial trust was not based on shared experience with individual representatives from partner companies, it was derived from a perceived sense of trust towards the other organisations. The others appear trustworthy because they are members of a trustworthy organisation (Lee & Choi, 2011).

Small talk and informal atmosphere

One interviewee did not like small talk, and preferred to focus on topics that were suited to a fact telling approach. However, small talk helped when building trust as individuals share their lives and opinions and in doing so reveal some of their personality and character. In

the case study network, the partner relationships were quite new and developing, but interactions were still in a very formal state. One interviewee highlighted that this formal atmosphere does not really help to build interpersonal trust: 'Still I see that that the meetings are far more formal than they should be, thinking about trust building and conduct, and that communication could be more open.' "Now job titles increase the gaps", said the one interviewee. Such gaps need to be actively minimised by encouraging more personal interaction. Network partners need to meet in a more informal atmosphere to encourage more casual interaction which helps to foster interpersonal trust (Barnett et al. 2010).

Communication

In general, the interviewees felt that the communication has not been active at the network level but those infrequent discussions have been good. One interviewee felt that this may be because either in the early state of networking, the partners want to listen and observe others before making a move, or the organisations' representatives did not have a mandate to proceed. Business networks could be tighter and more productive. One interviewee thought that trust starts to build when the partners share information that is not usually available to the others.

Interpersonal trust building in the initial phase of business networking – enablers and road-blocks

People should act as they have promised, in other words, they should 'walk the talk', as trust can be lost if promises are not kept. The words and actions should be parallel (Christopher et al., 2008).

One interviewee revealed that straight talk was needed. "I long for straight talk where everyone could say exactly what they want and expect." Network members should be able to communicate their interests freely, however the meetings were overly formal and focused on the past. Active communication would better support trust building and encourage a future focus (Barnett et al., 2010). The network members did not fully understand the pieces of the puzzle, that is, they could not see the whole business model or the particular roles of each of the network partners. The benefits of synergy were not yet fully assimilated within the network.

Another interviewee commented on the importance of informal meetings and how the environment can help to create a more casual setting which encourages making personal acquaintances and building team spirit. Informal meetings eliminate the competitive position (Christopher et al., 2008) and foster outside-the-box thinking and even unconstrained ideas that can lead to new innovations. One interviewee felt that at informal events it was easier to get more information about the feelings and opinions of network partners. Also network members could disclose more clearly the reasons why they chose to take part in the network. One interviewee highlighted the importance of environment and atmosphere in trust building, noting that one of the network meetings in particular was better than the others. This meeting was held in a different and neutral environment in Vierumäki, Finland. This environment did not contain any distractions, whereas all other meetings were held in the head offices of the network companies. However one network partner felt that formal meetings could also be reframed so that the atmosphere was more casual and better able to support trust building.

This network member also reflected on how trust can be lost or damaged through being too self-interested. Furthermore, an overly positive image of circumstances can break trust. Distrust reduces communication and information exchange, and this prevents progress (Harisalo & Miettinen, 2010).

This study also supports earlier research findings that it takes time to create trusted relationships between network members. After a while, members should shift from addressing one another on last name terms to using first names. One interviewee noted that the important aspects of trust building are genuine listening, objectivity and adding value. Personal rapport is also needed. Tense and short interactions do not engender trust building and cooperation. Another interviewee claimed that 'if you think about the most trustworthy persons in your life, they are those whom you are dealing with the most'. The network members should have an in-depth understanding of the business of the other network members. Without this understanding, it is not possible to create business model that is based on value creation (Zott & Amit 2008). Also, network members should focus on collective decision-making

processes. Partners possess different viewpoints, and these need to be negotiated. But before they are fully ready for the stage of negotiation, they need better level of trust, in another words, they need more consistent experience of the behaviour towards each other. (Lewicki & Bunker 1996.)

A major challenge in business creation is time. An interviewee pondered how much time the representatives have to invest in business creation, as they have other daily duties. In the case study network, this business creation goal can be seen changing from a planning mode into action. Definite, successful steps will, in turn, build trust amongst network partners, supporting the network's operations and reinforcing their shared vision.

Figure 2 combines the enablers for interpersonal trust building in business networks that are collected from this study. The five main elements are: earlier positive experience, trustworthy actions, communication, personality and trust at the network level. Earlier successful operations build positive experiences which is a good starting point for trust at the network level. Trustworthy actions are needed, so trust is tested by how actions match words and how promises are kept. Communication should be active. Straight talk and genuine listening is needed. Small talk helps to get to know each other at the personal level and an informal atmosphere helps to build trust between people. Trust needs personal knowledge and rapport to grow. In addition, the environment and atmosphere play a role in trust building. Informal meetings can help in developing team spirit and personal acquaintances. In cooperation between network members, decision-making processes should be fair and negotiation is needed so that the different viewpoints are heard. Trust starts to build at the network level after concrete, successful steps have been achieved.

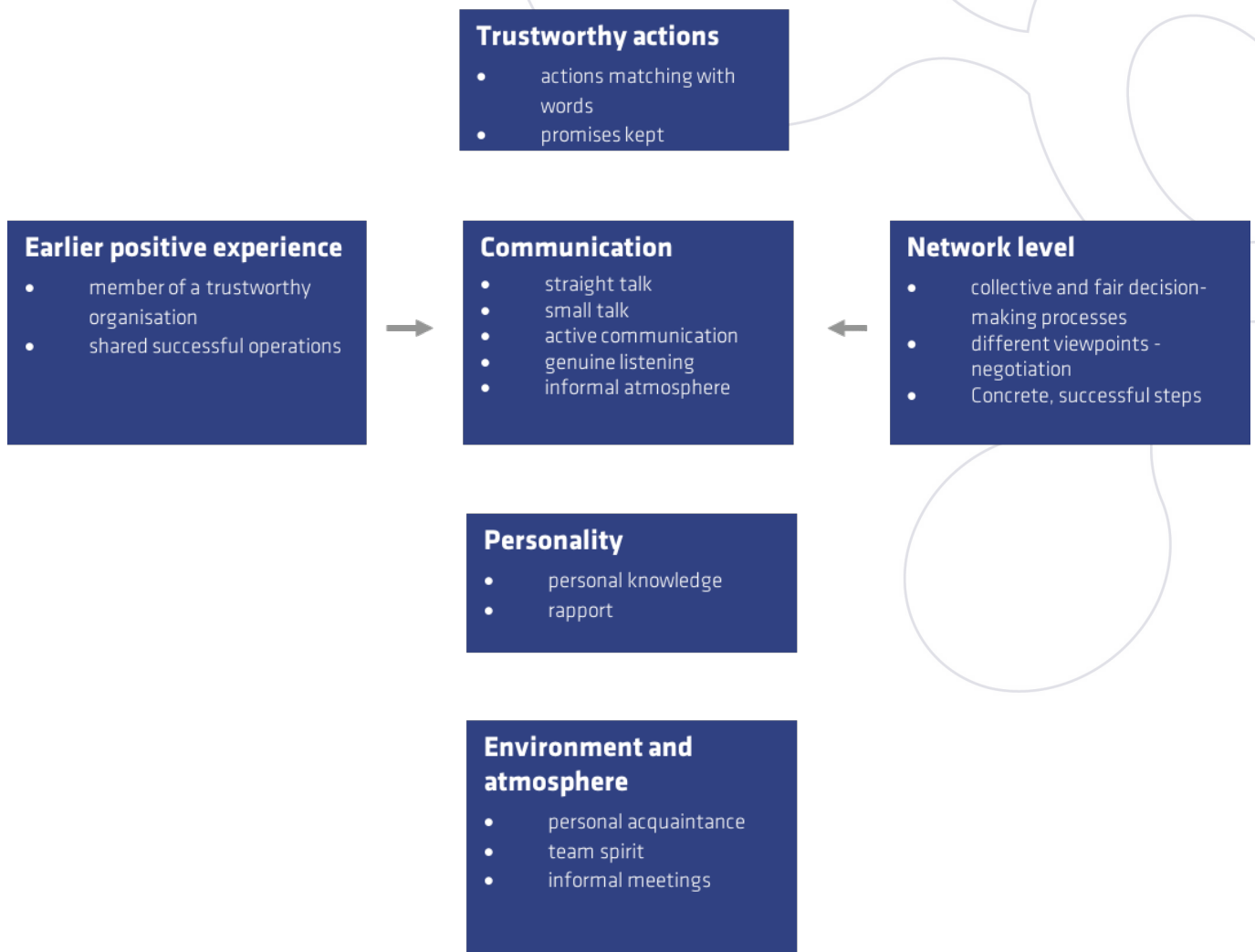


Figure 2: Enablers for interpersonal trust in business networks

Conclusion and Future Research

This research revealed that interpersonal trust building, based on emotions and a belief that the others are trustworthy, is essential when business networks are being established. This study supports earlier research findings that effective networking is not possible without trust (Holmlund & Törnroos 1997) because people cannot (or will not) share the ideas that can lead to new business models or innovations (Harisalo & Miettinen, 2010). Direct knowledge of partner creates willingness to share and transfer resources (De Wever et al. 2005). Shared interests support trust-building at the network level. Trust appears through the willingness of partners to propel their shared interests through developing the network. The case study provides an example of a val-

ue creation network is creating a new business model. This network is still in the development phase where the members are getting to know one another. The interviews highlighted that participants in this phase are cautious in their interactions. The formal atmosphere does not support trust building, whereas informal meetings would be more likely to invite interpersonal dialogue and foster a belief that cooperation is not based only on self-interest (Christopher et al. 2008). The key findings in this research is the importance of informal meetings that offers more casual surroundings that support more the development of we-spirit and active, free discussion that could contain also crazy ideas. The crazy ideas are important when the partners are developing the new business. Equal surroundings

and atmosphere support to reach the personal level in discussions.

This study focused on finding the guidance and suggestions for interpersonal trust building in the initial phase, noting that the trust-building process is slow and complex. The process follows Goffman's (1959) model of frontstage behaviour to backstage behaviour, where trust is needed so that people can take their mask off and reveal their true personality. This study also supports that the atmosphere and environment of interactions affects the trust-building process, and that it is not irrelevant where network members meet. Common platform for communication is needed in business network level and it is missing also in the case network (Gerbası & Latusek 2015).

In a business network, the responsibility of trust building must be shared. Trust builds through shared experiences, active communication, openness, and mutual respect. Moreover, face-to-face interaction and personal knowledge are needed. Trustworthy relationships enable communication where personal ideas and critical information can be revealed. Also, without trust, opinions, questions and improvement ideas are not always taken into account by network members. Interpersonal trust requires the following factors:

- personal acquaintance and chemistry;
- respect;
- fairness;
- keeping of promises;
- communication; and
- words matched by action.

Communication can be seen as one of the most essential areas and it is enhanced by trust. To be successful, full and open communication is essential when building a business network. Communication should include the following elements:

- genuine listening;
- straight talk;
- knowledge sharing;
- facts;
- needs;
- desires;
- feelings and emotions.

A climate of cooperation is required, where differing opinions can be voiced and acknowledged. It is important that the inevitable differences are not set aside or ignored (Cook, 2009).

This study also supports the view that trust is needed to encourage business partners to fully commit to the development of business networks. This business development consists of co-creation on many levels. For example, in business modelling, trust is a crucial factor for members to be willing to share their personal ideas and critical information. The shared vision and desired targets should be internalised by each and every network member and they should all take part in the discussions and be open to hearing others' opinions. In a business network, everyone is responsible for building trust.

This study is practical oriented and to main focus was to give guidance and support for the early stages of networking how trust starts to form. The guidance is for network partners and - creators but also for business consultants. We suggest that trust formation should be supported and the responsibility should be shared among network members. It is crucial to recognise the enablers and roadblock for trust building. The main enablers, such as, effective communication, promise keeping, fairness, respect and personal knowing can be seen as a corner stones for trust

This research focuses on one business network embedded in the Finnish context. Additional research would be needed to determine if the findings can be generalised on a larger scale, or to other contexts. This study has concentrated on the development of interpersonal trust in business. Further in-depth research could be conducted focusing on the design of tools and operational models that aim to support the building and maintenance of trust in business networks. Also the research could be focused to, is it possible to manage trust. There are not enough studies in this area.

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