The significance of trust for Organizational Accountability: The Legacy of Karl Polanyi

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Abstract

We can analyse trust and accountability as developed in business ethics and codes of conduct in order to build up social stability in economic interactions as a constitutive element of corporate citizenship. Economics is dependent on social relations based on common expectations, cultures, communities and strong social ties. Expectations of trust or mistrust contribute to the facilitation of social interaction. Trust is necessary because it stabilizes expectations to social actors in communication and exchange. External and internal relations of trust are the basis for integrating the firm in the civic traditions of society. Karl Polanyi developed this concept of the embeddedness of economic activity in the culture of a society in his work The Great Transformation. The Political and Economic Origins of Our times (1944). This idea of embeddedness was further analyzed by Marc Granovetter to imply that economic interactions cannot be separated from their embeddedness in civil structure of society. Due to the embeddedness of economic transactions in social structure, trust is also important in interactions between different companies. Accordingly, even though neoclassical economics regards the firm as independent from social relations, the cultural view of the firm inscribes economic actions in general relations of social exchange and reciprocity of society. Moreover, firms have to communicate their capacity of institutional stability in a society of transformation with many different stakeholders. Accordingly, we can argue that trust and accountability is important for the establishment of good ethics and corporate citizenship as an embedded factor of civic relations in society.

Introduction

In this paper, I will discuss the significance of trust for organizational accountability and why genuine trust relations are an important part of values-driven management and ethics in organizational culture. This is also central concerning development of social capital and prosperity in business organizations. We have seen that globalization of economic markets with lack of legal regulation and greater media awareness of corrupt business practices has increased awareness of the need for honest business. I will argue that trust is
important in order to promote accountability and sustainability of firms. Social acceptance of corporations is based on internal and external decent business practices. Therefore, trust is the condition for increasing cooperation and excellence in business organizations. Such an importance of building trustworthy business practices in order to restore the integrity of the international business community is illustrated by recent scandals concerning lack of transparency in international corporations. The Scandal of whitewashing of 1000 billion Danish Crowns (DKK) in the Danish Bank (Danske Bank) in Estonia in 2018 is an example of how a business corporation destroys all its relations of trust to society. However, we can also mention issues of environmental damage or critical labour practices with regard to respect for human rights of Western corporations in developing countries. Often we encounter many critical reactions and scepticism among employees, consumers, state representatives and other business organizations. Some commentators even interpret such problems of corporate governance, accountability and transparency as a deep crisis of public trust and social acceptance of corporations.

Therefore, it is important to discuss the significance of trust in order to restore corporate image, develop good corporate governance and to get social acceptance of business in democratic society. Trust is viewed as an important social clue and the informal lubricant of business organizations. My argument is that trustworthy business practices are based on ethical values. Trust is necessary for accountability and integrity of corporations because no organization can survive on the basis of generalised mistrust and opportunistic behaviour among employee, management and consumers and other stakeholders. Trust is central to internal unity and external legitimacy of corporations and therefore it is a key element in social capital of social relationships in business.

We may call for an ethical definition of trust emphasizing that what is trustworthy is based on the accountability and responsibility of the firm. To trust someone means to hold that person or organization accountable over time believing that they will perform actions of integrity and honesty. Trust is based on mutual expectations and promises for reciprocity and collaboration in the future. Such an idea of trust implies a close link between truth, honesty and transparency, which is illustrated by various degrees and cultures of trust in different corporations and societies. Trust is closely connected to integrity and accountability of transparent business institutions and networks without corruption or social and economic crime.

I will in the following discuss this ethical idea of trust as based on integrity in order to understand how we can improve corporate social capital and the
external and internal social acceptance of corporations. My main points for discussion are: (1) Trust as reduction of complexity of the social world (2) Trust as ethical accountability and responsibility (3) Trust as social capital in organizational culture. Firstly, we describe the significance of trust in late modernity. Secondly, we look at the ethical idea of trust where trust is based on the belief in the good moral intentions of the other. Thirdly, we discuss the role of trust in leadership and organizational culture. With this analysis, I want to show the role of trust in the ethical culture of corporations. Trust is needed for institutional coherence and it helps to include all stakeholders in organizational development both at the micro-level of corporate strategy, but it may be also at the macro-level of national policies and competition among nations. Therefore, we can argue that trust and business ethics are essential for the social credibility of the firm. This is realised by measures of ethical governance, values-driven management and corporate reporting.

1. Trust in late modernity: reduction of complexity

One important contribution to recent debates about trust has been the work of the German Sociologist Ulrich Beck on Risk Society in which he argues that global society in late modernity implies a situation where those in power take more and more risks on behalf of the citizens in society. ³ The environment, the economy and the general culture of technological civilization and expert decision-making puts the issue of the relations between uncertainty, risk and trust in the centre of interactions among individuals in modern society. Nevertheless, we may also mention factors of globalisation and the emergence of a complex network and virtual economy related to all kinds of e-businesses where there are few social relations and no direct physical link between the different actors as basis for increased need for trust rather than explicit contracts, written agreements, sanctions and rules in economic life. ⁴ An increasing tendency in a global economy is that individuals have to trust other people while being on shaking grounds. They must make choices and take risks based on limited knowledge and less personal frequentation of parties of interaction.

In risk society, experts and highly qualified professionals have very specialised knowledge about different social issues and it is impossible for ordinary individuals to acquire all of this knowledge. Therefore, trust, accountability and transparency and the conditions for trusting professionals become an important issue in reflexive modernity. Trust is a response to distribution of power and functions as an acceptance of the power of certain individuals and authorities in risk society. We can distinguish between generalised trust in institutions and social systems on the one hand and personal
trust directed towards individuals on the other hand based on the knowledge about the behaviour, knowledge, risk aversion and competence of those individuals and institutions. If we should draw the consequences for corporations and business life of this concept of risk and trust, we may argue that trust becomes more important for corporations because they gain their social legitimacy by broad social acceptances of their actions, which may imply increased social and environmental risk for society.

The insecurity of risk society may explain the crisis of trust in business corporations. However, trust is also important from the point of view of social ethics and it is considered as an important element for social capital. Francis Fukuyama has in his important book Trust. The Social Virtues and Creation of Prosperity contributed to the ethical understanding of trust as an inherent element of social capital. Economic action on fewer costs is founded on social capital in which mutual recognition, reciprocity and social bonds between individuals and groups in society constitute the cores of trust. Such civic relations based on a system of values constitute social capital and they are essential for economic development of society. Trustworthiness of social networks is based on their honorability and respectability. What is especially important for economic prosperity is the ability to trust strangers. Low trust cultures may be characterised by strong family ties, but there is no strong civil public bond among members of community. While low trust cultures are poor of social cohesion there are strong ethical values and social bonds in families, civic associations and local communities in high trust cultures. This view of economics emphasizes the importance of ethics in community for social capital and progress of business. People trust each other because they are operating on the basis of a common set of norms. In high trust cultures like Japan or Western Europe trust has always been an ethical value that is a part of the morality and duty of work.

Therefore, lack of trust in risk society may have a serious effect on economic markets, because a business organization looses important social capital of open social relations, public goodwill as well mutual support and cooperation among employees. The business community is highly dependant on the virtues of integrity and honesty of associations and interactions in civil society. In this perspective, the consequences of decline of trust in advanced countries can be very dangerous for economic prosperity. An important issue for present business relations is to avoid falling back into low trust cultures where there is less civic engagement and no culture of public trust. Instead, our discussion on the role of trust for business ethics is motivated by the need of open and reliable civil communities as social basis for development of business and economic interactions. It is a challenge for complex risk society to be used to
“deal with strangers” that is to maintain and develop trusts cultures at economic markets and in business organizations with high levels of social recognition among economic trade partner who no direct intimate relations with each others. That is why we need to focus on trust in business ethics.  

In his studies of civic traditions in Italy and his analysis of the collapse of US civil society, the US Sociologist Robert Putnam also contributes to this elaboration of the significance of trust in business life. He draws attention to the importance of networks and shared values for people in organizations. Putnam argues for the importance of civic engagement and political stability for development of society. In *Bowling Alone. The Collapse and Revival of American Community* (2000) he analysis the need for restoring social capital in modern society. Putnam agrees with the definition of trust as a part of social capital. Because it develops values of reciprocity in social networks trust is one feature of social capital that can help to improve the efficiency of the economy. Egalitarian elements of strong civil bonds have democratic orientations and increases civic cooperation. Therefore, social capital implies that economic actors are not only determined by pure rational action, but also largely influenced by the strength of social networks and other social conditions for examples the ethical norms and values of particular organizations, networks and communities.

The German Sociologist Nicklas Luhmann has developed an analysis of trust, which helps us to get a profound understanding of the meaning of trust for social capital in risk society. He defines trust as tolerance of uncertainty, general reliance, belief and expectations of human beings to their social world. In the perspective of functionalist analysis looking at the possibilities of action in social systems we can conceptualise trust as a basic element in systems of social interaction. As such an unmediated confrontation with the complexity of the world is impossible and we have to presuppose the stability and endurance of our common social world in order live in this world. It would be impossible and chaotic to act and live in the world if we could not rely on even the trivial aspects of our life-world. Human action implies choices of interpretations and confrontations with the world, which presuppose basic reliance on many social facts and meanings. But trust is in particular an element of mutual commitment between human beings. The emergence of intersubjectivity, the encounter of the other requires trust of other human beings because he or she is free to act otherwise. The role of trust is reduction of complexity of ambiguities and of possibilities of action in social relationships. In this context, we could emphasize that trust is closely linked to the concept of “bounded rationality” in organizations where individual utility maximization is limited by the choices and actions of other individuals. We know that our knowledge is limited and that we
need to generalize on the basis of trust in order to act and behave in the world. Compared to the conditions in the premodern world risk society is full of ambiguities and insecurities and trust is a way to cope with this complexity where we cannot have any evidence or security about how other people will behave towards us.

In this perspective, we may emphasize the temporal dimensions of trust in people, institutional networks and social systems. The normative ethical view of trust cannot be the whole explanation in the perspective of the functionalist view on trust. We can also consider ancient religious or ethical worldviews as ways of reducing the complexity of an unknown future. Beliefs in natural law systems, political ethics and even business ethics are ways to formulate stable interpretations for the future. The unknown horizon of the future is conceptualised as an aspect of present expectations. Trust is reduction of complexity of an unknown future. Paradoxically, however, trust is also the ability that makes it possible for human beings to cope with an increasing complexity in the future. In the functionalist perspective trust is the capacity to deal with the increased number of unexpected events in a technological and scientific civilisation. In the light of business economy we may add that creation of trust is the condition for the ability of corporations to act on increasingly sensitive markets where stakeholders have difficulties in perceiving ambiguities, for example in biotechnology production of genetically modified products where consumers have to rely on technological and corporate experts in evaluating the safety of products.

Luhmann conceptualises the relation of human beings to the world in phenomenological terms inspired by Edmund Husserl and Alfred Schütz. Our bodily encounter with the world through conscious intentionality creates a worldly confidence, an anonymous intimacy with the world – which presupposes both trust and mistrust. Personal intimacy with the world makes the past dominates over the future and social contingency of the intersubjective reality becomes invisible in our encounter with the world. In this way, basic confidence in our experiences is complementary to trust. To deal with uncertainty is a reflexive reduction of complexities with regard to future events and actions. The reason for this need of trust is the encounter of other human beings in complex social systems represents a threat to our intimate relation with the meanings of our personal life-world.

We can emphasize that trust is always indeterminate. Trust is based on the illusion that there is sufficient information to make successful choices and actions. Trust moves external insecurity to internal security. As reduction of
complexity in systems of personal or social action trust reflects the contingency of
the social world and the subjectivity of human expectations. To make the decision
to trust someone in personal or organizational decision-making cannot be
exclusively a problem of calculation of risk or rational planning, but is essentially a
matter of absorption of insecurity. As generalized expectation between
knowledge and ignorance, trust is always in the end a matter of choice with no
final rational foundation. Moreover, trust is a learning process dependant on
confirmation or rejection of trustful actions. Trust is also a matter of symbolic
generalization and images. Consumers, managers or employees cannot
conceptualise all aspects of the complexity of business organizations.
Consequently they have to simplify their experiences of organizations, for
example by relying on corporate mission statements, value expressions or codes
of conduct. Therefore, we can distinguish between trust in persons and trust in
systems.\(^{16}\) Trust in persons is based on the recognition and expectation of the
freedom of the other person. It is the belief that the other is free to act according
to an infinite number of possibilities. In relations between persons trust depends
on communication, self-representation and potentiality of action that increases
as the subject expose trustful behaviour. It is important to be aware of the
institutional dimensions of personal trust in networks or organizations in which
actions and human freedom are submitted to common an expectation that
excludes deviant behaviour. Interpersonal trust presupposes situations where
subjects are willing to enter into a trust relationship. Such situations of personal
trust communication are at the limits calculative exchange and imply exposure of
vulnerability. In cases of successful trustworthy actions interpersonal trust is
likely to increase the intimate relation and closeness between the subjects.

Even though such interpersonal trust is very basic to ethical relations of
reciprocity among human beings in friendship, families and love relationship,
personal trust is not a sufficient condition for trust in modern social systems.\(^{17}\)
Rather trust does not only depend on personal elements but also on social
systems and our trust in these social systems. System trust is different from
person trust and is generated through our communication in social systems
where what Luhmann calls “medias” such as money, truth, love and power are
functions of social systems that help to establish trustful relations among
individuals. Communicative medias in different systems - like money, which we
intuitively value or truth that we recognize as an absolute value – function as
symbols for trust, which help to reduce complexity and create stability in modern
complex and highly differentiated societies. It is a general characteristic of risk
society and the modern world we have a tendency to go from personal trust to a
somewhat diffuse system trust as the foundation for our lives in complex
societies.\(^{18}\) A condition for our survival in complex societies is that we not only
live in personalized life world with other people that we can trust, but also that we have to trust the many social systems in which we take part.

Self-representation of organizations in public space illustrates how corporations contribute to the formation of public trust and increase their trustworthiness as business partners. Formulation of corporate identity, branding and establishment of the organization in the public mind contribute to the symbolisation of system trust. In cases of efforts to create genuine transparency and integrity in images of the organization, such self-representation may manifest a reduction of complexity of the content of a social system, which is trustworthy for stakeholders of the corporation. This is realised by techniques of strategic public relations, for example appealing to the rhetorical figures: logos, ethos and pathos.\textsuperscript{19} Logos is about using factual language to create corporate legitimacy, ethos is about emphasising normativity and pathos is about the good and serious intentions of the organization. In order to appeal to public trust rhetorical figures are used as a part of the expressive aesthetics of the organization. In presenting its values, virtues and self-understandings, the organization constructs a symbolic picture of its own identity, which is court for the trust of stakeholders.

This concept of system trust emphasises the need to analyse trust at organizational and structural levels of institutional networks because of the need for reduction of complexity in technological society.\textsuperscript{20} System trust in the highly differentiated social systems of modernity expresses our trust in a generalized social order. From the personal perspective, trust is reduction of complexity where the individual decides to trust a system even though there is no conclusive argument for the soundness of this system. Trust is a device to discard many possibilities in order to make decisions about action. Trust as a necessary reduction of insecurity in economic systems expresses the need to have foundation for action in situations of ambiguity. This is emphasized by the fact that the understanding of complexity in modern business organizations and their functionality increasingly demands specified knowledge about economic markets, personalities of managers and employees and of decision making and production in economic systems. Control and understanding of systems require professional and practical knowledge and this is the reason why system trust to corporations may be very fragile in situations of risk and rapid social change.

2. Trust as ethical accountability and responsibility

In this analysis of trust between persons and system trust we have relied on Luhmann’s interpretation of Talcott Parsons’ functionalist sociology in combination with phenomenological accounts of human intersubjectivity, intentionality and subjective relations to the world. We are close to the
existentialism of the French philosopher Jean-Paul Sartre when we argue that trust, as reduction of complexity is the way humanity deals with the possibility of chaos and anguish of nothingness beyond our human life-world. There is a kind of “bad faith” in trust because we refuse to deal with the contingency of the meaning of the social world.

Even though system trust is very different from personal trust similar conceptions seem to lie behind trust in social systems like organizations and business networks. As Kenneth Arrow has remarked trust is “virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time”. Among many definitions in theory of organizations trust is used as explanation of human action. Trust is based on individual’s expectations of acceptable behaviour of other people in situations of limited knowledge and uncertainty. Trust includes the elements of predictability, dependency and faith. This means that one relies so much in another person or institution that one takes the risk to expect that the other person or institution will behave in a certain way. Trust as opposed to opportunism indicates reduction of insecurity among agents in organizations. It is the reflective anticipation of a reliable behaviour of possible opponents. Trust is defined as informal norms, which may have the same importance for organizational unity as the rule of law or ethical principles.

According to rational choice theory trust is argued to reducible to self-interest. Trust is described as a feeling linked to personal choice. Therefore trust is a functional reflective instrument to calculate utility and risks of opportunism. Neither personal trust, nor system trust can have any intrinsic importance. Opposed to this individualistic concept is the view of trust as based on solidarity and cooperation. In this perspective, mutual reciprocity is the ethical foundation of trust as an important ingredient of building social institutions.

I would argue that trust in organizations require both elements of personal trust and of system trust. Here we go from aesthetics to ethics and use values in organizational culture to create social trust in organizations. One way to create symbols of social capital for organizations as an important element of corporate identity may seem to work with transparency and business ethics because these “medias” and symbolisations seems to appeal both at elements from personal and system trust. In order to establish a relation between these two dimensions of trust with regard to organizations we have to look at the ethical aspect of personal trust. When we extend the phenomenological perspective on trust as a component of human interaction and institution building we must admit that trust is fundamentally an ethical notion appealing to human moral autonomy,
responsibility, transparency, accountability and integrity.

In the analysis of Luhmann’s concept of trust we learned that the one that personal trust in someone is to expose one’s vulnerability to the other. This implies a philosophical and psychological notion of trust seeing trust as a sign of human interdependence and reciprocity and our ability to ignore and cope with risk in our lives because we have to trust each other. In this view the starting point may be the blind trust of the child relating unconditionally to the world without suspicion or distrust. But even though the trust of the child is engaging it is also an indication of the reflexivity of trust. Our argument for trust as choice of reduction of complexity emphasises such reflexive aspects of trust. Experienced people decide whether to trust or mistrust in their existential confrontation with the world. Relating this concept of trust to institutions we may say that networks and organizations as the foundation for human actions, norms and decision making are based on such a great vulnerability, complexity and ambiguity that we have to take the risk of trusting each other without having deep rational evidence or security to support our basic actions.

The Danish theologian and philosopher K.E. Løgstrup has given the most comprehensive definition of the ethical foundation of trust. In his major work on ethics The Ethical Demand. Løgstrup defines trust human surrender to the conditions of existence. He argues that One’s expectation the other, articulated in the act of trust expresses an ethical demand. Rejected self-surrender expresses itself in moral accusations. Even in situations that have nothing to do with morality rejected hope of fulfilment of trust requirements may lead to conflict, moral disappointment and blame. In this view trust is a spontaneous expression of our belief in life and the world. We are basically confident and open to other people, for example in love relations and communicative encounters.

This is also the case when we relate to strangers. We suppose that they are reliable and that they are not going to hurt us. Trust and self-surrender to the other is a basic component of human existence. The ethical demand gives the other a basic ethical responsibility. In other words to trust the other person is to consider this trustworthy person as a person of integrity. Trust relies on expectations of ethical behaviour because it has an open-ended character where we trust other persons without any basis in the natural, legal or other strong certainties. The essence of the trust relation is the demand that the other person should fulfil our expectations. In our surrender we require that the person we have chosen to trust is responsible and accountable.

Accordingly, trust is founded on the mutual interdependence, reciprocity and interaction between human beings in a common social world. The ethics of
trust implies the belief in the accountability of the other as compensation for our own vulnerability and fragility. It is based on the existential idea of facicity of human existence as “being in the world” where individuals in their situations of existential choice are open to the encounter of the other as subject for moral concern. In such a common life world human beings are that are trustful are pictured as persons of accountability and integrity. Applying these ideas in business ethics we perceive that trust is a fundamental condition for good ethical relations among actors. A trustworthy person is someone who acts according to the Kantian concept of ethical and moral autonomy. This idea is based on self-respect, dignity and integrity. Respect for dignity presupposes reciprocity and mutuality, which extended to relations with employees and customers or other stakeholders, becomes trust. As a virtue of organizational and individual behaviour integrity is very important for good relations among business partners. And trust is a part of the constitution of integrity when we meet these business partners who are like strangers from different cultures.

As we can deduce from the phenomenological perspective trust may be considered as the asymmetric opposite to responsibility, because the individual in trusting the other is committing oneself to the responsibility of the other. In this context trust indicates the ethical borderlines of economic theory where actors are vulnerable to risk. Business ethics may help us to be aware of these challenges. Good faith and openness to the other is conceived as a fundamental basis for participating in economic life. In the end, trust presupposes virtues of honest behaviour and this can contribute to greater social coherence in community and better business opportunities.

Although this kind of trust may appeal to the rationality of habit and identity as well as to common expectations in personal relationships it is not strictly a rational relation, but rather based on emotions, promises, friendships that emerge in close intimate encounters between human beings. Trust is linked to the moral commitments of individuals and their sense of identity and personality. Trust indicates personal accountability as a member of community. This personal trust, however, may also be viewed in the perspective of belief and coexistence in formal and informal rules and norms of social networks where trust is an indication of the social authority of certain individuals. Personal trust or trust in authorities and powerful or respectable individuals in institutional networks may be exercised through performance, appearance and reputation, which are the social symbolizations and expressions of trustful relations.

In order to improve social capital in corporations we may draw the consequences of our ethical view of trust for business life. The elements of
organizational systems that help to create trust give organizations good images in public life. Active work with ethical values and business ethics helps to establish a trustful reputation of companies in the public. It is also very important to share knowledge and information with the public. A key element in trust is transparency that contributes to the belief of shareholders and stakeholders that the corporation is reliable for investing or purchase of products. A spirit of transparency includes that corporations do not hide controversial information about policies and corporate finance but include any important information in corporate reporting. Another element of creation of public trust in business organization is to have a culture of accountability where organizations take responsibility for their actions and of lack of disclosure of information to stakeholders. Organizational accountability applies at all levels of the organization for managers, employees who should show their willingness to serve shareholders and stakeholders rather than exclusively pursuing their personal interests. Accountability and responsibility of corporations include compliance with all international standards, rules, regulations and codes of conduct. But this is not possible without people with integrity, individual managers or employees of the organizations who are committed to transparency, honesty, which implies to do the “right thing”.

Accountability, integrity and responsibility manifest institutional symbolisations appealing to the value of truth as the centre of organizational commitment. Therefore, these values can be considered as the institutional basis for long-term sustainability and social capital of the corporation. The emergence of trust in organizations and more informal networks as social systems relates to the individual’s expectation that a group of persons, a firm or an organization will act in accordance with basic ethical rules of the market system. This belief is fundamental for cooperation, because other firms in a complex environment without hard evidence must make a reduction of complexity and rely on the trust that other groups of persons, firms and institutions will not abstain from following fundamental values of accountability and responsibility for common action and economic exchange.

To base a culture of trust on the accountability and responsibility of the organization can be explained by the concept of integrity in organizations. It requires that the organization is honest and transparent about its policies and decisions, which is central to the institutional idea of organizational integrity. In being honest and transparent an organization can appeal simultaneous to personal trust of its employees and to system trust in its self-representation in society. As a good corporate citizen complying with rules and regulations and being transparent about decision-making in the public is the key to greater public
Even though such ethical concepts of organizations may seem very plausible we have to deal with a problem of the normative dimensions of trust analysis. We have shown that ethics is an important presupposition of both personal trust and system trust. It is therefore important to emphasize that there is a difference between the emphasis of ethics of trust and the dangers of explaining trust by moralizing that trust always will be good. One of the pitfalls of the ethical view of trust is to say that trust is always good. Even though I propose an ethical definition of trust I agree with Luhman that we should be very sceptical of such possible moralization of the concept of trust. We should not forget that it certainly is possible to find situations where mistrust would be better than trust. There is no ultimate normative argument for trust, because it is very dependant on specific situations whether trust is good or bad. Trust cannot always be morally good, because it is dependent on specific situations of choice. Ethics must confront the many situations where trust is alienated, confused or deceived, for example when corporations use ethics programs and corporate reporting as a cosmetic instrument for hiding unethical behaviour, financial problems or even criminal action. We can for example imagine large bureaucratic organizations where individuals blindly trust authorities without questioning their “evil” orders.

Therefore, in order to be aware of the possible abuses of trust we can follow Luhmann in saying that it is important to work with the functionalist system theory when analysing the role of trust in social systems. The fact that we think that ethics can help to build trust in organizations does not exclude the descriptive analysis of trust as the basis of decision theory inside and outside organizations. In emphasizing that trust is neither a prognosis, nor a mean, nor a goal in itself. We can say that trust is not the only element in social capital. Trust is only one among different functions and rationalities of sustaining complex organizations. Establishing trust relations as the basis for social capital gives the social system a certain institutional stability in different forms of formal and informal networks. Medias such as money, truth, power or love helps to build the organizational coherence. Such stabilisations of social systems help to make them work more efficiently, but it also contributes to the differentiation of the system with regard to other systems and organizations. Trust is one among different structures that help to reduce complexity and distinguish social systems from their social context and environment.

3. Trust as social capital in organizational culture

We are now able to discuss the importance of trust for leadership, integrity in
organizations and organizational culture as a way to create social capital. Trust is present in nearly all activities of the firm, as informal contracts, expectations to colleagues, partners or reliance on product quality. Trustworthy ethical behaviour is necessary to maintain business relations and will reduce opportunism and install greater stakeholder confidence in the firm.\(^{38}\) This leads to greater demand of the firms product and competitive advantage in regard to other firms with higher transactions cost due to mistrust and fraud. But trust relations do not only represent a functional and economic way of reducing transactions costs. Without trust organisations would be unable to navigate smoothly in complex network societies. Moreover, norms of reciprocity, respectability and trustworthiness help corporations to respond to social expectations by a good reputation in society. We could emphasise that a thoroughgoing lack of trust between business and its customers in the business environment simply would make it impossible to exchange goods. The functionalist view of trust based on the distinction between personal trust and more diffuse system trust may help us to conceptualise how corporations can increase external and internal trust relations. In a global network society with easy and very fast flows of information the need to build trustful images and reputation are important for the corporation in order to have stable customers and good employees.\(^{39}\) Without such fair arrangements of goods and interactions among members of organization are in danger of leading to corrupt and unequal power relations and mistrust opening for opportunistic behaviour, which may generate discourses and relations of mistrust destroying the image and legitimacy of specific firms.

This need to express trustful character and identity is reflected in efforts of corporations to respond to demands of different stakeholders by engaging in organizational ethics, alternative reporting, efforts to relate in a socially responsible way to local community and also initiatives to reduce damage to the environment. Trust is important in organizational culture in order to develop the relations of the firm to its environment. To create trusts in organizational systems also represent the kind of reduction of complexity. This is needed to enforce social capital in market economics. We need social support for economic actions that reduces risk and intensifies social bonds between economic actors. We can say that it is necessary to create relations that look like personal trust and to work on developing medias of system trust. To work with trust in leadership, values and corporate ethics indicate such an effort to make trust a part of organizational culture. Trust is important for work relations because it improves cooperation in changing and evolving organizations.\(^{40}\)

Trust is indeed an element in creating a sense of community among employees, which helps to cope with and other problems in the organization.
Therefore building trust is a feature of leadership strategy because it reinforces the sustainability of the organization. We may consider trustworthiness as an element of the integrity of a good leader. Leaders who are enjoying great loyalty cannot fake trustworthiness but are having respect from employee due to their willingness to serve the common good. Such leaders with integrity are connective people who build up networks and social ties based on trust, but they are also people who are able to bridge between different value systems. And due to their ability to establish open trust relations, employees are willing to accept security and take more risk.

Moreover, motivated and educated employees cannot successfully be governed strict control, and they are increasingly having the liberty to be free to organize their personal working life. Building trust in organizations can help them to be more efficient, because it makes employees more tolerant for ambiguity. High trust organizations reduce the need for control and managers and employees can interact with their stakeholders dealing with a high degree of ambiguity, uncertainty and unexpected events. Interpersonal trust among organizational members improves the group cohesion and the organizational culture of the organization. Reliability of stakeholders and other members of organizations improve cooperative action and possible success of organizational activities.

We have emphasized that the firm can construct social capital in relation to business partners, networks consumers and the general public. Here it is important to get the belief that the firm is a trustworthy partner at the economic market. Firms have to engage in communicative and strategic relations with their surroundings in order to establish good relations of trust. Business ethics, corporate branding, good governance structures, etc. are efficient for improving trust relations. Values-driven management appeals to reciprocity and mutual engagement for shared objectives. The reason is that values and visions are much more flexible than rules and regulations. Programs for increasing transparency and avoidance of doubtful behaviour like bribery or discrimination increase social acceptance. Ethics in organizational policies requires mutual confidence and common understanding among organizational members. Due to their appeal to integrity and transparency values and ethics also influence external stakeholders and accordingly they improve public trust.

Simon Zadek show us ways to build trust in The Civil Corporation. The New Economy of Corporate Citizenship. In his view function of trust is not only a image, but genuine concern to be ethical and care for stakeholders. This was for example the case when Levi-Strauss argued that it wanted to make a difference in
improving people's lives and decided to improve its labour practices by joining the Fair Labour Association in 1999. Credibility and trust is based on individual citizens' visions and opinions about corporations, and trust in organisations is often based on reliance on particular individuals, for example leaders with high integrity like Anita Roddick from Body Shop Corporation who has been a strong symbol of her firm's ecological value commitments. However, NGO's often experience greater trust than commercial firm because of their philanthropic commitments and this is an argument for the importance of business ethics and real commitment beyond economic greed in order to create corporate accountability. Indeed, it is necessary to professionalize values-driven management and corporate reporting in order to expose the honest intentions of the firm. In this context, efforts of external verification of triple bottom line auditing and accounting as required by companies like Shell, Novo Group is crucial for improving corporate credibility. However, external verification will not be sufficient without continuous will to improvement and stakeholder dialogue.

The ethical definition of trust is a response to those who argue that not all reciprocity and cooperation may be good for society. What about the strong social ties of the Mafia? What about trust among members of corporations who do not obey the law? Here trust relations seem to reinforce inequality. What seems to be good for these corporations does not benefit society and it may have bad consequences for workers and consumers. But the use of social capital in anti-social and amoral networks or organizations is in the long run not really efficient for the firm. Opportunistic manipulation with trust may create temporary beliefs in honesty and respectability of firms, but such a strategy is very dangerous and is likely to have negative consequences, because there is a close link between truth, moral integrity and trust.

In organizational culture reflexive trust emerges in the tension between knowledge and ignorance, implying taking a risk in situations, where the search for full knowledge is impossible, irrational or very cost full for the social actor. With regard to interactions between individuals in institutions trust is very important for easy economic transactions. Establishment of expectations and habits of trust in organization put normative boundaries on individuals who are like to act purely selfish without any cooperative efforts. In the perspective of game theory there also seems to exist very powerful strategic arguments for the advantage of cooperative trust relations where trusting the other after all is the most advantageous action of individuals who are maximizing rational self-interest. Cooperation is a game and going in to collaboration with other individuals involves taking great risk. Sometimes, however, the rational concept of trust is based on a too strong opposition between trust and distrust and makes
us forget that there are different levels or degrees of trust. This is not always the case in practical reality of organization where there are many different levels of expectations of trust.

Further indication of the importance of trust for social capital in organizational culture is the complexity of the relations between power and responsibilities of employees, managers with regard to decision-making and practical judgement. Decision-making is required to be in accordance with values that reflect social expectations to the corporation. Mutual respect and trust is in this context a condition for collaboration in the community of the organization. We might say that the need of trust is motivated because of the vulnerability of managers and employees in organizations with regard to the stakeholders with whom they are dealing. Bad judgement and lack of integrity or simple errors may have fatal consequences for the collaborative efforts of community. Distrust may be the result of the inability to establish a common culture of trust to respect mutual vulnerabilities. Leaders both in private business and in public organizations need to establish trustful relations in order to keep their position in society. Not engaging in such trustful relations makes risks emerge as a basis for decisions. Values of truth telling and promise keeping become central values in order to establish trustful relation among members of a particular organization.

What is needed is an institutional foundation for trust in the life world of institutions. Amartya Sen considers transparency guarantees where the individual can interact with others with stable expectations of what they can get as essential to capitalist freedom. Established rules of behaviour and knowledge about business partner’s ethics are important non-economic conditions for development of market economics. One way to ensure this is to establish policies of values and sanctions at the institutional level so that there is special attention to fraud, dishonesty, corruption and other deceptive practices at the institutional level. In this context ethics codes and policies of values-driven management may improve communication and branding for stakeholders and contribute to the reinforcement of trust between employees and managers and the external stakeholders. In this way professional self-regulation is a part of contributions to the common good at the social level. This work with values can be considered as ways to define this professional self-regulation. The ethics code is a device to determine action. It helps to show to the environment what is considered as good and trustful actions of the firm. The ethics codes helps business individuals to be aware of what is good judgment and it can help to ensure compliance to ethics rules in the corporations. Ethical principles formulated in ethics codes are very important for the creation of a culture of trust in different organizations.
In this perspective, we need trust in order to build up social stability in economic interactions. Economics is dependent on social relations based on common expectations, cultures, communities and strong social ties. Expectations of trust or mistrust contribute to the facilitation of social interaction. Trust is necessary because it stabilises expectations to social actors in communication and exchange. External and internal relations of trust are the basis for integrating the firm in the civic traditions of society. This idea of embeddedness as developed by Karl Polanyi and Marc Granovetter imply that economic interactions cannot be separated from their embeddedness in civil structure of society.⁵³ Due to the embeddedness of economic transactions in social structure, trust is also important in interactions between different companies. Moreover, firms have to communicate their capacity of institutional stability in a society of transformation with many different stakeholders. In this context we have analysed trust as a contribution to the creation of reflexivity and self-observation of corporations. Thus, we can conclude that trust is a part of ethics and values of corporations. High levels of trust in organizational cultures are important for coherence of interactions in the firm. These internalisations of common norm establish reciprocity and bounded solidarity in the firm, which will be the basis enlarging the network of the firm in confident relations with its stakeholders.


7 Govier, Trudy: Social Trust and Human Communities. Montreal: McGill Queens University Press, 1997, p.45
11 Ibid. P. 43.
13 Ibid., p. 32.
14 Ibid., p.32.
15 Ibid., p. 48.
16 Ibid., p. 50.
17 Ibid., p. 53.
18 Ibid. P. 53.
22 Ibid., p. 22.
24 Ibid., p. 267.
27 Ibid., p. 74.


Ibid., 5-6


Ibid., p. 93


Ibid. p. 348.


Ibid., p. 44.

Ibid., p. 212.


Ibid., 265.


Literature:


