Journal of Business Ethics (2010) 95:425–438
DOI 10.1007/s10551-010-0414-4
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Trust and Stakeholder Theory: Trustworthiness in the Organisation–Stakeholder Relationship

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ABSTRACT. Trust is a fundamental aspect of the moral treatment of stakeholders within the organization–stakeholder relationship. Stakeholders trust the organization to return benefit or protections from harm commensurate with their contributions or stakes. However, in many situations, the firm holds greater power than the stakeholder and therefore cannot necessarily be trusted to return the aforementioned duty to the stakeholder. Stakeholders must therefore rely on the trustworthiness of the organization to fulfill obligations in accordance to Phillips' principle of fairness (*Business Ethics Quarterly* **7**(1), 1997, 51–66), particularly where low-power stakeholders may not be fully consenting (Van Buren III, *Business Ethics Quarterly* **11**(3), 2001, 481–499). The construct of organizational trustworthiness developed herewith is presented as a possible solution to the problem of unfairness in organization–stakeholder relations. While organizational trustworthiness does not create an ethical obligation where none existed before, stakeholders who lack power will likely be treated fairly when organizational trustworthiness is present.

KEY WORDS: stakeholder theory, trust, trustworthiness, power, dependent stakeholders

There has been considerable academic work within the business ethics literature focusing on fairness in organization–stakeholder relations. Phillips (1997, 2003) defined a principle of fairness while seeking to delimit who is and is not a stakeholder to those individuals and groups that are part of an organization's collective scheme for mutual benefit. Van Buren III (2001) added consent to Phillips' formulation, proposing that power imbalances between stakeholders and organizations made exploitation likely if stakeholder consent was absent.

In this article, we add concepts of trust and trustworthiness to the study of organization–stakeholder relations. We hold that analysis of organizational obligations to stakeholders in terms of fairness and consent is incomplete if it does not account for how stakeholders manage their vulnerability to firm actions in the absence of legally or contractually enforceable obligations. Stakeholders, especially those without power, must rely on the trustworthiness of organizations to satisfy fairness obligations that are due them. Trusting in trust is perilous for such stakeholders; however, we note that while their contribution create binding ethical obligations on corporations, stakeholders have no surety that this obligation will be met. Trust, or more specifically organizational trustworthiness, is therefore proposed as a solution to the obligations of fairness (Phillips, 1997) and the analyses of consent and power (Van Buren III, 2001). It is argued that the construct of organizational trustworthiness, posited and developed in this article, is important because low-power dependent stakeholders have no alternative, in the absence of external constraints on self-interested behavior, but to rely on the trustworthiness of the organization. Although organizational trustworthiness does not create an ethical obligation that did not already exist, it does provide a means by which ethical obligations to stakeholders – especially stakeholders without power – are more likely to be discharged positively.

Trust and trustworthiness in organizations

Trust in the organization–stakeholder relationship, and the trustworthiness of the organization to that relationship, is fundamental to the moral treatment of stakeholders. A summary of the argument follows: When a stakeholder has contributed an investment to

the firm, and that investment has been accepted, the firm owes a duty to the stakeholder to maximize benefit (or minimize harm) to that stakeholder (Greenwood, 2007). Here, we conceptualize investment in terms of something that is beneficial to firm's operations, which can include labor, financial capital, and a location to operate, among others. However, in many situations, the firm holds greater power than the stakeholder and therefore cannot necessarily be trusted to return the aforementioned benefit to the stakeholder. The degree to which the firm can be trusted to do so is related to its moral characteristic of trustworthiness. The following section will examine the notions of trust and trustworthiness in some detail.

Trust as moral exchange

Based an extensive review of the organizational theory literature, Hosmer synthesized the following definition:

> Trust is the reliance by one person, group, or firm, upon a voluntarily accepted duty on the part of another person, group or firm, to recognize and protect the rights and interests of all others engaged in a joint endeavor or economic exchange (Hosmer, 1995, p. 393).

Having considered the concept of trust in normative ethics, he produced the following definition:

> Trust is the expectation by one person, groups or firm of ethically justifiable behavior, that is, morally correct decisions and actions based upon ethical principles of analysis on the part of another person, groups, or firm in a joint endeavor or economic exchange.

This later definition, however, loses emphasis on the two important features of the former definition: the reliance of the trusting party and the duty incumbent of the trusted party. Both are necessary to an analysis on the ethical obligations of organizations with regard to stakeholder relationships. Hence, we suggest a definition of trust based on a combination of Hosmer's two definitions:

> Trust is the reliance by one person, group, or firm, upon a voluntarily accepted duty on the part of another person, group or firm, to act in a manner that is ethically justifiable; that is, undertake morally correct decisions and actions based upon ethical principles of analysis towards all others engaged in a joint endeavor or economic exchange.

It is essential to note that according to this definition, the trusting party (or principal) is left vulnerable to the uncertain actions of the trusted party (or agent) and is thus dependent upon that party. Trust generally involves some level of vulnerability on the actions of another. When we trust others, we are relying on them to take care of something about which we care, but which they could harm or steal if they wished; hence, we make ourselves vulnerable. Stakeholders, for example, contribute resources to and make sacrifices for corporations (Phillips, 1997) and presumably care about what the organization does with them. Vulnerability creates risk, and sometimes loss, for the trusting party (McAllister, 1995). The rationale for a person or persons to put themselves in such a position of vulnerability and dependence is that they may achieve improved co-operation and/or benefits from such an exchange (Hosmer, 1995). Trust "is required for many cooperative activities which make human life livable and worth living" (Bailey, 2002, p. 3). Although rarely enforceable, trust based on vulnerability lays the ground for expecting that the trustee will not take advantage of the trusting party (Meyerson et al., 1996).

If there is no enforcement process to compel the trusted party to co-operate and deliver benefit (as opposed to harm), the trusting party must base its decision to trust on other factors. Such enforcement processes can be based on shared social norms (Fukuyama, 1995; Nahapiet and Ghoshal, 1998; Ostrom, 2000; Putnam, 1995) that are often enforced through pre-existing network relations (Coleman, 1990; Nahapiet and Ghoshal, 1998). However, enforcement of trust via shared societal norms and network relationships is often absent (Currie and Kerrin, 2003), and especially in the context of organization–stakeholder relationships. Much of the literature on trust addresses relationships in which the trusting parties are directly known to each other. However, relationships between organizations and stakeholders are often conducted on more impersonal bases. This is especially so when organizational managers seek to

manage relationships with groups of stakeholders rather than individuals.

Wicks et al. (1999) suggest that there are three elements of trust. The first is rational prediction of outcomes compared with risk. Trust is seen as the optimistic expectation of the eventual outcome of an uncertain event (Hosmer, 1995). Such outcomes may be immediate in time horizon, as in the case of a spot transaction (Rousseau, 1995) between two parties (relying on the existence of fragile trust that does not survive a transaction in which costs and benefits to each party are unequal) or longer term in nature (relying on resilient trust, in which both parties believe that their costs and benefits will even out over time; (Ring, 1996; Ring and Van de Ven, 1992). It is this aspect of trust upon which managerial authors tend to focus at the expense of the other two (Wicks et al., 1999). Reliance on the predictability of an organization's behavior, though often defined as trust, is more accurately understood as lack of distrust (Swift, 2001). Trust is a richer concept that incorporates mutual vulnerability and risk, and duty to protect others (Swift, 2001).

Another element of trust is emotion. Trust is seen as the willingness of individuals to increase their vulnerability to the actions of others whose behavior they cannot control (Hosmer, 1995). Trust is often not rational; sometimes people trust because they feel positively inclined toward another, as noted in studies of physical attractiveness (Mulford et al., 1998) or charismatic personalities (Conger et al., 2000). Thus, trust occurs because an emotional bond is created between people, enabling them to move beyond rational prediction to take a ''leap of faith'' that trust will be honored.

The final element enabling trust has a clear moral element. The existence of trust implies an ethical obligation not to abuse that trust for one's benefit. There is a moral duty to protect others in the absence of social controls that would use coercion to restrain behavior. Trust is based on a subjective belief in the benevolent intention of others in the trust relationship (Peccei and Guest, 2002). A large part of the relationship that is developed by rational prediction and emotional bonds is a belief in ''goodwill'' or the moral character of the actors.

Trust therefore entails an expectation of morally correct performance by the trusted party. The trusting party puts itself in a position of dependence and vulnerability, not necessarily because they believe the trusted party will act in its best interest, but because it believes that the trusted party will act for the greater good (Hosmer, 1995). Wicks et al. (1999) emphasized the importance of the moral element to trust because without this element agents are faced with opportunism or higher agency or transaction costs to prevent opportunism (see also Williamson, 1993) on this point. It is due to self-restraint on behalf of the moral actor that trust might or might not (depending on the actions of the parties involved) address the problem of opportunism. The extent and nature of self-restraint, goodwill and moral character of the organization form the basis of the argument present here and will be discussed at length subsequently.

Trust and the absence of distrust

The moral aspect of trust highlights the distinction between the *presence of trust* and the *absence or lack of distrust*. In the absence of the moral element of the trust relationship, any action is merely the willingness of one person to increase his or her vulnerability to the actions of another person whose behavior he or she cannot control (Hosmer, 1995) based on a prediction or calculation of that behavior (Lewicki and Bunker, 1996). There is no implied duty on the part of the trusted party, no promise of protection offered. Any risk taken by the individual is based on beliefs not related to the moral character of the other party nor any implied moral contract. This rational action is better understood as the absence of distrust rather than existence of trust. If ''lack of distrust'' is therefore understood as the opposite of distrust, then the trust is best described as the opposite of ''lack of trust.'' The representation of trust as a single continuum is no longer suitable, and a split trust continuum helps to explain what appear to be mutually exclusive ideals (Swift, 2001).

Swift (2001) proposes that the absence of trust differs qualitatively from the presence of distrust. Figure 1 depicts a split trust continuum in comparison to a single trust continuum. The ''distrust-lack of distrust'' range is based on the predictability of the agent's behavior and the level of suspicion of the principal. As such distrust is depicted as the assumption that the agent cannot be predicted to act

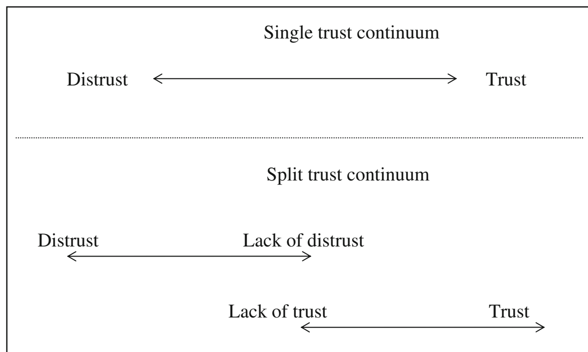

Figure 1. The split trust continuum [based on Swift (2001)].

in the principal's interest and is likely to pursue self-interest, and therefore the principal has a high level of suspicion of the agent. Lack of distrust is understood as low level of suspicion of the agent based on the assumption that the agent's behavior is predictable. The ''trust-lack of trust'' range does not assume rationality and allows for a higher level of emotion and the inclusion of moral duty. Thus, ''lack of trust'' is understood as the principal not having knowledge or confidence of the agent's trustworthiness and therefore being less willing to take a risk or place itself in a position of vulnerability. ''Trust'' is described as the principal having belief and confidence in the goodwill of the agent's intent and behavior, and thus being willing to risk exposure to vulnerability or take the ''leap of faith.'' This is consistent with the definition and explanations of trust discussed earlier (Hosmer, 1995; Wicks et al., 1999).

The split trust continuum suggests that one could arrive at the same position by having either a lack of trust or a lack of distrust. A process that would reduce distrust could just as readily reduce trust. If this is the case, then the split trust continuum can allow the apparently paradoxical absence of trust and distrust at the same time. An example of this is the introduction of formal stakeholder engagement practices such as social reporting. Social reporting may reduce distrust in an organization for a distant stakeholder by providing material organizational information previously unknown. In contrast, the introduction of standardized, resource-expensive, time delayed, formal communication may reduce trust for a stakeholder previously reliant on personal, direct, and immediate contact with particularly organizational representatives. This further underlines argument that the moral element must be present in the exchange relationship for trust (as opposed to lack of distrust) to exist and the concomitant importance of actor trustworthiness.

Trustworthiness as moral character

The moral element of the trust relationship has been established. A logical advancement of this notion is that a party's willingness to trust is linked to the moral character and perceived trustworthiness of the trusted party. Although trust and trustworthiness are sometimes used interchangeably, they are distinct in that trust is a situational factor, whereas trustworthiness is a quality displayed by parties that then engenders trust (Blois, 1999). Trustworthiness is thus a virtue that attaches to individuals or collectives.

According to Mayer et al. (1995), there are three critical elements that determine trustworthiness: ability, benevolence, and integrity. *Ability* refers to the agent's capacity to undertake the task required. In part, ability refers to technical skills and competencies. However, it also involves less specific capacities such as interpersonal communication and analytical skills and more abstract characteristics such as business sense and judgment. Ability in an organization might also mean whether the organization is able to use its resources and capabilities to deliver a promised result to a stakeholder. *Benevolence* is the extent to which the agent is seen to want to act in the interest of the principal. Benevolence connotes a positive orientation or attachment between an agent and a specific principal or principals. Examples of such benevolence include love or sympathy toward the other party. This construct of benevolence as personal orientation parallels, but is more specific than, similar notions of intention and motivation. *Integrity* is the perception that the agent adheres to a set of principles that the principal considers worthy. Importantly, this construct is wider than the mere adherence of the agent to a set of values (personal integrity) or the mere compatibility between the agent's and principal's values (value congruence).

The fact that these elements are seen as unique and separable does not mean that they are exclusive of one another and not related. It is noted that these variables are not dichotomous but exist along a continuum (Mayer et al., 1995). If all three factors were perceived to be high, then individual would be seen as highly trustworthy. There may be situations, however, where not all three factors are high but one or two factors exists such that a ''meaningful'' amount of trustworthiness is present, although such a judgment likely exposes the trustor to more vulnerability (Mayer et al., 1995, p. 721). It may be possible, but highly unlikely, for a perception of trustworthiness to exist in the absence of one of these factors – most likely because of a misperception by the party extending trust. Someone who extends trust to another in the absence of all three factors would likely be considered imprudent (Wicks et al., 1999).

It is probable that the absence of one of these factors would undermine overall perceptions of trustworthiness. The perceived absence of one factor might cause one to question whether the other two are really present. Mayer et al. (1995) believe that where the agent is unknown, or there is no existing relationship between principal and agent, integrity will be the most salient factor in perceived trustworthiness, a finding supported by work in network theory (Burt, 1997, 1999). Further, where the agent is known, or as the relationship between principal and agent develops, benevolence will become a more salient factor in the decision on whether to extend trust based on perceptions of trustworthiness.

Bailey (2002) suggests that trustworthiness goes beyond both benevolence and integrity. He argues that reliance on either or both of these factors is not sufficient. He identifies a reliance on others to take responsibility for how their role or position affects the lives of others, particularly how their behavior will influence the decisions of others. Such taking of responsibility is part of being a friend or a relative, but it is also part of being a professional and a business person. Bailey writes: ''This taking of responsibility, rather than love, sympathy, or a sense of morality, is the ''good disposition,'' or ''trustworthiness,'' on which I rely in trusting another'' (Bailey, 2002, p. 8). This conceptualization of trustworthiness does more to extend specifically ethical obligations than does the Mayer et al. framework. Importantly, such a conceptualization of trustworthiness might then support the principle of fairness which suggests that duties attach when a corporation accepts benefits from a stakeholder.

Organizational trustworthiness

The notion of the organization as a moral actor is implicit in many strands of organizational literature: the knowledge organization is said to have consciousness, i.e., capacity for reflection, evaluation, and learning (Pruzan, 2001); the socially responsible organization is accorded the status of a citizen, with citizenship's rights and responsibilities (Moon et al., 2005). Whether the organization is referred to in a metaphoric or more literal sense is not evident (Pruzan, 2001): the organization may be viewed as a euphemism or collective term for the actors within it; or be seen as a moral agent and capable of consciousness and intent. The later has been argued convincingly, deeming the organization as a moral agent (Collier, 1998; Donaldson, 1982; Moore, 1999) with moral identity (Weaver, 2006), moral character, and capacity to be virtuous (Moore, 2005). This section will consider the particular moral characteristics and obligations of organizational trustworthiness.

Any debate regarding trustworthiness of individuals in an organizational context is severely limited by the necessity of being able to identify and know these individuals. For example, Slinger (2000) sees calculativeness (self-serving behavior) as readily recognizable in the organization–stakeholder relationship due to the rich information which passes during interpersonal interactions. Frank (1988, cited in Wicks et al., 1999) concurs that it is difficult to mask selfish behaviors because of various facial expressions, gestures, and other emotional cues that tend to reveal one's true motivation. However, these are behaviors and characteristics held by individuals in the firm, not the firm as a whole. Thus, stakeholders are limited by the impossibility that all stakeholders are able to interact directly with corporate executives. By seeing the firm as a moral actor with the capacity to hold the virtuous characteristics (Moore, 2005), the notion of uncalculativeness is no longer bound to an individual or individuals but can be attributed to the organization as a whole.

In addition to being personally based, trust can be system based and institution based. Implicit is the notions of systems and institutional trust, is that trust can be a collective attribute. Systems trust refers to the trust an individual holds in the functioning and reliability of impersonal social structures (Bachmann, 2003), that is trust which is process-based tied to a record of past operations (Hosmer, 1995). Institutional trust refers to the trust between individuals who are bounded by specific institutional arrangements (Bachmann, 2003) such as the policies and practices of professional, business, or other institutions (Hosmer, 1995). The idea that trust can be institution-based rather than personally-based is implicit in a government's institutions and legal system, and further is characteristic of relations between organizations and stakeholders.

Hence, we postulate an additional form of collective trust to those already identified, that being *organizational trust* and its corresponding notion of *organizational trustworthiness*. Organizational trust refers to the trust between individuals, and/or groups of individuals, and the organization as an entity in and of itself. Such a concept would extend to the idea of trust among organizations, or between organizations and stakeholders. The corresponding notion of organizational trustworthiness refers to a virtue or set of virtues held by the organization, reflecting its worthiness to be trusted, distinct from the virtues held by members or representatives of the organization. The moral component of this concept of organizational trustworthiness is crucial and distinguishes it from previous constructions of it as comprising only affective and cognitive components (Caldwell and Clapham, 2003). The notion that an organization can be an object of trust and display characteristics of trustworthiness (such as ability, benevolence and integrity) is predicated on the organization being considered a moral agent – albeit one that exercises its morality through the actions of its members.

It is a logical extension from acceptance of the moral agency of organizations, and the possibility of a virtuous organization, to suggest that an organization as a whole can be an actor in the trust relationship and possess (or not possess) the attribute of trustworthiness. Organizational trustworthiness is entirely separate from (albeit possibly highly related to) manager trustworthiness which may be understood as a characteristic of individual managers or a management group. Interestingly, discussion of manager trustworthiness places the moral element of trust, i.e., benevolence and/or moral integrity on behalf of managers, as central. For example, employees would see a manager who ensures a safe workplace or a fair compensation system as trustworthy (Chiaburu and Lim, 2008).

Moore's (2005) development of the notion of corporate character and virtue provides substantive support to the construct of organizational trustworthiness. Organizational trustworthiness, together with other organizational characteristics, is endemic to corporate culture, institutional memory, and top management orientation and values, and will thus vary accordingly. Ciulla (2001, p. 317) advances organizational virtue suggesting that "it is the leader's role to model virtue, and to make sure that the structure and operating procedures of the organization support these virtues." Weaver (2006) concurs with the suggestion that organizational moral identity will influence the behaviors of organizational senior managers and may generate in stakeholders very specific expectations regarding executive behaviors. In the same way that self-discipline and virtue are antidotes for power held by leaders, organizational virtue can restrain the excesses of organizational power.

Corporate character and virtues, according to Moore (2005), are a means to achieving the end of internal goods (that is "goods of excellence" obtainable through relationships, learning and self-actualization) which serve as a necessary balance for external goods (that is "goods of effectives" based on material, monetary or image enhancement). Trustworthiness, similar to virtue, is a means by which both organization and stakeholder may be assured of balance of potential opportunistic desire for external goods with the nurture of internal goods. Trustworthiness is a narrower concept than virtue, a subset of virtue. Trustworthiness could be seen as a constellation of certain virtues including predictability, benevolence, and integrity, (Mayer et al., 1995) and contrasted with non-virtuous organizational characteristics such as organizational narcissism (Duchon and Drake, 2009).

The manner in which the notion of organizational trustworthiness may unfold in organization–stakeholder relationships is addressed subsequently as it is vital to debate of trustworthiness as a solution to power imbalance suffered by dependent stakeholders.

Trust in organization–stakeholder relationships

The previous section established the notions of trust and trustworthiness as a characteristic of the organization. Trust is essential to the organization–stakeholder relationship because the stakeholder group is reliant upon the organization to return its due rights. There exists the likelihood of a power differential in favor of the organization especially with regard to dependent stakeholders. Further, there exists the likelihood that low-power, legitimate stakeholders may enter (or be entered into) a relationship with the organization under some degree of coercion. Stakeholders, therefore, are potentially vulnerable and dependent on the organization. It has been established that stakeholder theory has not overtly addressed issues of power (Greenwood, 2007; Stoney and Winstanley, 2001). It is required of stakeholder theory to account for these phenomena (Van Buren III and Greenwood, 2008; Van Buren III and Greenwood, 2009) for it to be explicitly and effectively normative in nature. Differences in power between organizations and different stakeholders account for differences in outcomes experienced by stakeholders (Van Buren III, 2001), and stakeholder theory ought to identify power imbalances, trace through their effects, and offer proposals for their amelioration. To this end, the developments within stakeholder theory in the areas of fairness, consent, and trust will be explored and extended.

Fairness and consent

The fairness principle contributes to stakeholder theory in two important ways. First, stakeholders are able to be identified through their contribution to, and voluntary acceptance of benefits from, the scheme (Phillips, 1997). Second, the use of the principle of distributive justice to justify proportional benefit provides a normative principle upon which to base stakeholder theory (Van Buren III, 2001).

For the purposes of the present argument, however, the crucial contribution of the principle of fairness is its potential to address the needs of stakeholders who are affected by the firm but have limited capacity to affect the firm, that is, legitimate low-power stakeholders (referred to as dependent stakeholders in the terminology of Mitchell et al., 1997). The principle holds that even where the parties have the capacity to refrain from contributing to the scheme, and yet still retain their benefits, they are obliged not to do so (i.e., not to free ride). It is apt that Phillips draws from the rich tradition of Rawlsian justice ethics, notions such the veil of ignorance.

Organizations may deliberately seek out less powerful stakeholders with the deliberate intention of returning them less benefit than they deserve. Such an argument is supported by resource dependence theory. Organizations that believe themselves to be dependent on the contributions of a stakeholder group are more likely to behave solicitously toward that group. Powerless stakeholders, in contrast, are often so because organizations believe (often correctly) that their contributions are easily replaced. The key point to make here is that powerless stakeholders lack choice and therefore have little alternative but to accept whatever terms of exchange are offered by the organization. Using the example of employees who have little or no access to collective bargaining or government regulation to protect their work conditions, Van Buren III (2001, p. 487) argues that "the problem of unfairness in stakeholder theory (is located) squarely in power differentials between stakeholders and a focal organization."

In examining the notion of consent, two factors are important: the difference between explicit consent and implied consent, and the voluntary nature of consent. Explicit consent, in the form of a legal written contract, accounts for only a small number of the agreements made in mutually beneficial schemes. It has been argued, however, that acts that show a favorable attitude cannot be taken as consent to a contract and, as such, do not imply the obligations entailed in such a contract (Van Buren III, 2001). Further, obligations of fairness may be incurred whether or not consent has been given (Phillips, 1997).

The question of whether explicit or tacit consent has been given is superseded, in some circumstances, by the issue of the voluntariness of the consent. It is entirely possible for an organization to gain resources from a stakeholder without that stakeholder's overt consent. For consent to be meaningful, it must be freely given and not coerced (Van Buren III, 2001).

Where a company enters into an arrangement with a stakeholder that is economically and/or politically powerless, any action of consent or implied consent taken by such stakeholders cannot be assumed to be freely given and not coerced. Employees in developing countries, such as the *maquiladora* workers who experience both poverty and state hostility toward collective bargaining in countries such as Mexico, are examples of such stakeholders (Lafer, 2005; Van Buren III, 2001). Such employees may have accepted a wage from a firm under conditions that provide them no alternative but to do so (e.g., poverty, state oppression). This does not mean that they have consented to the broader conditions of their treatment (e.g., forced overtime, freedom of movement). Further, acceptance of a wage under even partially coercive conditions may undermine employees' capacity to regulate their work conditions through withdrawal of their labor. Where coercion exists, consent declines or disappears.

Fairness, consent, and trust

The link between fairness, consent, and trust in the stakeholder relationship will be explored at this point. Recall that the fairness principle states that if a contribution is made or risk taken, and this contribution or risk is accepted by the other party, then this party is obliged to return a benefit (or protection from harm) in proportion to the commitment made by to the risk-taker. Thus, the risk-taker is reliant or dependent upon the obligated party to fulfill its responsibility. Even if the possibility of free-riding exists, that is, the possibility of getting away with not fulfilling the obligation but still reaping the benefits, the obligated party is morally forbidden from doing so. However, how does the risk-taker ensure that the benefit from the risk is returned, that the organization will be fair? Importantly, the risk-taker's vulnerability is further increased where its involvement in the co-operative scheme is not fully voluntary – that is, when consent is coerced or absent entirely.

Two distinct possible ways of ensuring specific organizational behaviors have always been through external regulation by government and through voluntary self-regulation. Where the latter is relied upon, a vulnerable or dependent stakeholder can only rely on trust and the trustworthiness of the organization. Trustworthiness as a virtue held by the organization provides the vulnerable party its only surety that the organization will limit egregious behavior. Moore (2005, p. 679) provides support in his construction of corporate character and virtue as a means of ''warding off threats from its own inordinate pursuit of external goods and from the corrupting power of other institutions with which it engages.'' Trust and trustworthiness are key factors in the probability that a particular investment will result in a particular outcome; that is, the likelihood that a stakeholder will be given its concomitant rights and that the organization will be fair.

Trust, power, and the organization–stakeholder relationship

Stakeholders differ with regard to their capacity to influence the organization in an effort to change its behavior (Frooman, 1999). We have noted previously the particular importance of power, a point highlighted in Mitchell et al.'s (1997) differentiation between definitive stakeholders (which possess power, legitimacy, and urgency) and dependent stakeholders (which posses legitimacy and urgency). Here, we bring together the effects of sources of power, their proposed effects on definitive and dependent stakeholders' capacity to influence, and the need for organizational trustworthiness (Table I).

We consider three sources of power potentially available to organizational stakeholders: voting, political, and economic power. We note that for a stakeholder to be definitive – meaning that managers should (at a minimum from an instrumental standpoint) pay attention to its claims – some sort of power is necessary. Definitive stakeholders are able to use their power in ways that make reliance on an organization's trustworthiness less necessary than for the dependent stakeholder.

Stakeholders possessing voting power, such as shareholders, have the capacity to exercise direct influence on corporations. However, voting rights do not mean that a stakeholder possessing them ''runs'' the corporation (Kaufman et al., 1995). Shareholders in most countries possess limited voting rights; in the United States, they can vote for a slate of director nominees, but they cannot generally nominate them directly. Shareholders often get to vote

TABLE I

The relationship between capacity to influence and organizational trustworthiness

Source of power	Type of stakeholder	
	Definitive	Dependent
Voting (economic)	Some capacity to influence through voting rights, e.g., shareholders voting at AGM. Trustworthiness is helpful to protect their interests with regard to corporate practices not subject to a vote	Negligible capacity to influence through voting rights and therefore increased reliance on trustworthiness
Political (regulatory)	Some capacity to influence politically through regulatory mechanisms, e.g., stakeholder seeking of new or modified regulation to respond to perceived corporate malfeasance	Negligible capacity to influence politically and therefore increased reliance on trustworthiness
Economic (market)	Some capacity to influence economically (setting the terms of exchange with the organization) through control of rare or valuable resources, e.g., an intermediate good needed for production	Negligible capacity to influence economically and therefore increased reliance on trustworthiness

when there are major changes in strategy, such as a merger. Furthermore, corporations generally do not allow shareholders to vote on day-to-day business actions. In short, shareholders do not ''own'' the corporation in a way that individuals possess personal property, and the limits on voting rights help explain why this is so (Lipton and Savitt, 2007). Voting power thus allows a stakeholder to exercise influence and have its claims heard by the corporation, but voting rights tend to be limited in scope. Trustworthiness is thus useful to stakeholders possessing voting power, but voting power nonetheless must be accounted for by corporations and their managers.

Similarly, political power allows stakeholders via government to use enforcement mechanisms and the promulgation of new legislation to control the behavior of corporations. Stakeholders can choose to try to influence business behavior directly, or they can seek to have government – through regulatory mechanisms – change business behavior. The political power of government is coercive in nature, in that the government can sanction certain kinds of behavior and reward others. However, legislation and regulation have limits; governments generally do not seek to (and as a practical matter, cannot) control every aspect of business behavior. Although government possesses regulatory power, it is often dependent on corporations to provide the information needed to effect regulation – which then creates a need for organizational trustworthiness.

The U.S. Securities and Exchange Commission, for example, cannot check up on every submission that a corporation files to comply with securities laws. Rather, the SEC must rely on the trustworthiness of the organizations that it regulates, often to the detriment of itself and of investors. Further, stakeholder groups do not have equal capacity to press their claims through government. Organized and well-resourced stakeholder groups such as organized labor, institutional investors, and international NGOs have greater lobbying influence than less organized and resourced groups such as third-world workers, individual investors, and local community groups. There are limits to the political power of governments and to the capacity of stakeholders to be represented by government, and those limits give rise to the need for organizational trustworthiness.

Economic power is perhaps most significant with regard to a stakeholder's ability to influence a corporation. A stakeholder that controls rare and valuable resources is in a position to structure exchange agreements with a corporation in ways that are beneficial to the stakeholder (Pfeffer and Salancik, 1978). Economic power thus allows a stakeholder to influence an organization. Of course, there is the possibility that the corporation will breach the agreement with the stakeholder, although this possibility is ameliorated in large part for stakeholders whose resources are especially necessary to the organization.

For stakeholders that possess power, organizational trustworthiness complements their power and makes it more likely that the stakeholders' claims will be recognized by the organization. We propose that for such stakeholders, the need for organizational trustworthiness is contingent on whether stakeholder power is salient for affecting the decision making of the organization's managers. From a purely instrumental standpoint, managers can use assessments of stakeholder power in a calculative manner, deciding how to treat different stakeholders based on whether the stakeholder has power and is able to resist or influence the corporation.

For stakeholders that lack voting, political, or economic power, the ability to influence corporate behavior is limited. Corporations have the ability, if they choose, to act opportunistically and free ride on the contributions of such stakeholders. A party is more likely to behave opportunistically where it has the power to do so and is not likely to be not reliant on the other party in the future (Axelrod and Hamilton, 1981). For dependent vulnerable stakeholders, organizational trustworthiness is likely to be the only protection against opportunistic behavior that is harmful to their interests.

Of course, opportunistic behavior on behalf of an organization within the organization–stakeholder relationship is likely to impact not only future interactions with that stakeholder, but also other stakeholders as well. The integrity of the organization will be brought into question and it will be seen as less trustworthy and hence less likely to engender (and be worthy of the extension of) trust. It may be tempting in a relationship dependent upon trust for a party to ''act as if'' they care about the rights and interests of the other party as a means of enhancing their own interests. Such duplicitous behavior is more likely to occur where the stakeholder is highly dependent on or vulnerable to a more powerful organization.

Organizational trust and trustworthiness as a solution

It is well accepted that co-operative relationships are an efficient substitute for expensive and restrictive formal structures (Creed and Miles, 1996). Co-operation is reliant on predictability but may not necessarily include the moral aspects of trust and the concomitant dependence on the trustworthiness of co-operating parties. Trust-based co-operative relationships are distinguished by their moral component. Based on the earlier espousement of the principle of fairness, it is apparent that co-operative relationships between organizations and legitimate stakeholders are morally based. It is also apparent that dependent or vulnerable stakeholders suffer from lack of genuine choice and consent in such relationships (Van Buren III, 2001), such as employees who have no ability to alter the terms of exchange with an employer and are unable to join a labor union to gain collective influence. In the absence of another more viable option for low-power stakeholders, organizational trustworthiness offers more than solace. A reputation for organizational trustworthiness, built on previous behaviors of the organization, may indicate (albeit does not guarantee) mitigated risk involved in trusting the organization in the future. We are not suggesting that this is a perfect or even ideal mechanism; just that it is an available and potentially useful mechanism. As such, it is posited that vulnerable stakeholders involved in morally based co-operative relationships are reliant on trust and trustworthiness of the organization.

While we do not go as far as to say that trust creates a corresponding ethical duty for the organization, trust is generally accompanied by an assumption of morally correct behavior. Particular to the organizational–stakeholder relationship is moral duty on behalf of the organization already embedded in the relationship as a result of acceptance of the stake (Phillips, 1997). To the extent that a vulnerable stakeholder group needs to trust in an organization that it will not be exploited, there is a responsibility on the organization to act in a non-opportunistic manner toward such a group. These voluntary duties

go beyond a negative promise not to take advantage of the other party; they suggest a positive guarantee that the rights and interests of the other party will be included in the final outcome. This is consistent with fiduciary duties, the notion that the interests of others (here a principal) are placed before the interests of the person being trusted (an agent who acts on behalf of a principal).The extension of fiduciary duties to ''all others engaged in a joint endeavor or economic exchange'' (see earlier definition of trust from Hosmer, 1995, p. 399) is a hallmark of stakeholder theory. We noted previously that in order to be seen as trustworthy, managers need to abstain from opportunistic behavior and must be genuinely committed to trust. Organizational trust and trustworthiness is part and parcel of the organization, and its managers, acting as agents for stakeholders.

Organizational trustworthiness, the notion that an organization can have the characteristics of trustworthy behaviors of predictability, benevolence, and integrity, has been posited here as a novel construct needing development. Of interest to this present debate is the manner in which organizational trustworthiness may unfold in the organization–stakeholder relationship, particularly with regard to low-power vulnerable stakeholders. Trustworthiness of an organization is likely to be of value to all organizational stakeholders. The important observation that perceptions of an organization's trustworthiness will vary between and within stakeholder groups is noted; however, extensive discussion of this point is beyond the scope of this article. The extent to which a stakeholder can trust the organization to behave in a certain manner allows that stakeholder to calculate its own behavior generally, not merely with respect to managing their vulnerability. The vulnerability experienced by a stakeholder created by the need to trust in an organization has additional moral import. Stakeholders have changed their behavior based on a perception of the organization's trustworthiness. To the extent that stakeholders have changed their behaviors in ways that are advantageous to the organization, then the organization incurs a moral obligation. Being trustworthy as an organization is the most direct way of discharging that obligation to the stakeholder group.

Drawing on the work of Mayer et al. (1995), who posited that trustworthiness depended on ability, benevolence, and integrity, we now trace out the moral obligations that arise from the need of a stakeholder to rely on the trustworthiness of an organization. Ability is perhaps the easiest element of trustworthiness to consider in this regard as it is readily demonstrated by organizational actions and outcomes such as sound financial management systems and quality assurance. When organizations make promises to stakeholders, stakeholders have a reasonable expectation that the organization has the ability to live up to those promises. Ability is different than intent, of course. It is possible to have the ability to deliver on a promise but decide to renege on it. Here, we make a simpler claim, which is that organizations ought to only make promises to stakeholders when organizational managers truly believe that the organization has the ability to live up to them – whether in terms of resources, organizational skill, or any other precursor to successful completion of the promise.

Benevolence is somewhat difficult to parse with regard to organizational trustworthiness given its emotional content. It may be the case that benevolence here is partially understood as avoiding the breach of a promise, even if the organization would find it advantageous to do so. However, benevolence also refers to a positive affect or feeling to incorporating a desire to act positively toward another. With regard to organizational trustworthiness, it follows that benevolence must demand that organizations feel and act positively toward the stakeholders that have extended trust to the organization. If benevolent feelings exist, then the organization will find it to be morally wrong to break a promise, not just because a promise was made but also because it is especially wrong to harm someone for whom the organization has positive affect. Acting positively entails procedural considerations such as interactional courtesy and responsibility to inform (Caldwell and Clapham, 2003). The imputation of trustworthiness by a stakeholder suggests that an organization has an obligation to display positive feeling and actions toward that stakeholder, meaning that contempt toward trusting stakeholders is morally incorrect.

Integrity, previously defined as the perception that the agent adheres to a set of principles that the principal considers worthy, is rather straightforward with regard to organizational trustworthiness. The decision to extend trust to an organization makes a

stakeholder a kind of principal that relies on the actions of the organization acting as an agent. Trustworthiness then suggests that the organization should adhere to principles that the stakeholder finds worthy. Stakeholders may be concerned for organizational values which directly relate to their own well-being, such as a customer of baby products being highly concerned with the product quality and safety. Alternatively, stakeholders may be more concerned with organizational adherence to global values which do not directly relate to their own experience of the organization, such as socially responsible investors concerned with environmental protection or customers wishing to purchase non-animal tested cosmetics.

We conclude our analysis with reference to Bailey's (2002) claim that trustworthiness goes beyond both benevolence and integrity. Bailey proposes that trustworthiness demands that individuals take responsibility for how their role or position affects the lives of others, particularly how their behavior will influence the decisions of others. A similar analysis holds for organizational trustworthiness in the organization–stakeholder relationship. It is not enough for organizations considered to be trustworthy to demonstrate ability, benevolence, and integrity to trusting stakeholders. In keeping with stakeholder theory's "principle of corporate effects" (Evan and Freeman, 1993), for organizations to be seen as trustworthy, they have a moral obligation to consider how their actions affect the lives of stakeholders who extended trust. In the case of organizational–stakeholder relations, the decision to trust based on an imputation of organizational trustworthiness corresponds with rigorous moral demands on organizations to be worthy of that trust. Part of being worthy of stakeholders' trust is that the organization takes affirmative responsibility for consideration of stakeholder needs and interests.

Conclusion and research implications

This article has argued that trust necessarily involves a moral component over and above any emotional or rational component. We have proposed that trustworthiness is vital to the moral treatment of stakeholders in the organization–stakeholder relationship. Dependent stakeholders, who lack power and therefore a more viable alternative, must depend on the organizations with which they interact having the virtue that we have termed organizational trustworthiness.

We note some limitations in our approach which we believe merit further explication. We have offered organizational trustworthiness as a solution to the problems of unfairness and lack of consent in some organization–stakeholder relationships. Left unanswered in this article is how stakeholders, especially dependent stakeholders, might assess organizational trustworthiness. Given that company reporting often serves the interests of powerful stakeholders, dependent stakeholders often lack the information needed to assess whether an organization is trustworthy (O'Dwyer, 2005). We also note that even for powerful stakeholders, companies can manipulate perceptions of trustworthiness through mechanisms like cause-related marketing and social disclosure. Such mechanisms may or may not be signifiers of true organizational trustworthiness, a topic that merits further theoretical and empirical investigation.

Of import, but beyond the scope of the current paper, are the external conditions and internal organizational characteristics which may impact organizational trustworthiness. Trustworthiness may be different for companies in different types of competitive markets. For example, in highly regulated industries where companies earn significant non-market rent because of their market power, companies have tremendous stakes in being perceived as trustworthy in order to avoid public scrutiny or invite further regulation. Organizational trustworthiness is likely highly related to corporate culture, institutional memory, and top management orientation and values. For example, strong corporate culture derived from charismatic leadership is often associated with organizational trustworthiness. Finally, we note that organizational trustworthiness might well change over time and location within a corporation.

When one party takes the risk of making itself vulnerable to another party, it do so with the belief that the trustee will fulfill its own moral duty to protect their interests. This belief is based, at least in part, on the perceived trustworthiness of the trustee. The trustworthiness of the trusted party, therefore, is essential to the development of co-operative meaningful relationships. Hence, within organizational–stakeholder relationships, the trustworthiness of the parties (and particularly of the organization as the more powerful party) is crucial.

Further, it has been argued that stakeholders are reliant on the trustworthiness of the organization to fulfill its moral responsibilities to them. The reliance and vulnerability of the stakeholder are increased where a power differential exists between the organization and the stakeholder in favor of the organization. This vulnerability is further increased where the stakeholder is not fully voluntary in the relationship. The need of a stakeholder group to rely on the trustworthiness of an organization to fulfil its moral obligation may not be ideal, but it is indubitable. We thus conclude that, with regard to organization–stakeholder relationships, fairness is the correct principle, lack of consent is the problem, and trustworthiness is a solution.

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