Component-Based Business
Background Material

On Trust

Richard Veryard, October 2000

Introduction

Trust is an emergent property of a system.

Trust and mistrust.

Trust (or trustworthiness) has several aspects.

Capability	The ability to make credible commitments.	*Can this person or company fulfil its promises and expectations?*
Good faith	An expectation that commitments will be honoured, even in the absence of an external enforcement mechanism. (Although it may be theoretically possible to take legal action against the other party, this often involves too much cost and delay to be a practical option.)	*Is this person or company willing to fulfil its promises and expectations? Cheerfully or grudgingly?*
Contingency / Continuity	An expectation of honourable behaviour in unforeseen circumstances. (In other words, you behave as you would have agreed to behave, if these circumstances had been foreseen.)	*Will this person or company suddenly start behaving badly or unpredictably when anything unusual happens?*
Misfortune	Not taking advantage of the bad luck of the other party.	*Is this person or company an opportunist?*
Containment	Protecting the other party (as far as possible) from one's own turbulence or misfortune.	*Is this person or company going to drag me into all its internal problems?*

Table 1: Aspects of Trust.

A trusting relationship rules out some of the standard excuses for bad behaviour – the corporate equivalent of what parents and teachers hear all the time.

"He made me do it."	*blaming third party*
"It was an accident."	*denying responsibility for own carelessness or recklessness*
"He hit me first."	*imputing retaliation*
"I didn't know I wasn't supposed to do that." "It didn't say anything about that in the contract (or specification)."	*taking advantage of the absence of explicit constraints*

Table 2: Excuses for bad behaviour.

Mistrust is more than the mere absence of trust, and is more difficult to deal with. (How do I deal with other people's mistrust of me, whether this is fairly deserved or not?)

Trust and commitment.

Growing trust implies **growing commitment**, on both sides. Commitment includes both **obligations** (my obligations to you, your obligations to me) and **exit costs** (costs to you or me of terminating or cutting back the relationship).

Obligations may be **actual**, **contingent** (agreed in advance for foreseen circumstances) or **hypothetical** (what would have been agreed if unforeseen circumstances had been foreseen). People and companies often fail to recognize the true depth of the commitment they have made to another party – especially the exit costs. Alternatively, they over-estimate the exit costs, and this tempts them to stay in an unhealthy relationship.

Some people and companies deliberately misrepresent the depth of their commitment to others, either to avoid being taken advantage of (especially in a situation where commitment appears to be unequal) or to gain some advantage themselves. Such tactics themselves indicate a shortage of trust or trustworthiness.

Negative commitments and stable boundaries may be as important to trust-building as positive ones. IBM has recently stated that its business is technology and solutions, and that it has no intention of becoming an ISP, a bank, or a retail operation. Martin Butler, the industry analyst, sees this as an important strategic commitment on IBM's part. According to him, “it means that large companies can enter into an uninhibited relationship with IBM, without fear that a partner might one day turn into a competitor”. Butler contrasts this with the predatory behaviour of some other leading IT companies.

Trust and knowledge.

Building trust requires a growth of knowledge (about the other party) in balance with the growth of commitment. Knowledge about the other party includes the following:

Identity	Who are they really?
Commitment	How committed are they to this relationship?
Perceptions, beliefs and values	How do they see the world?
Capability	What good deeds or bad deeds are they capable of? (based on past history or present capacity)
Other associations	Whom else are they in bed with? (and how committed are they to these other partners?)

Table 3: Finding out about your partners.

Trust and values.

There is a relationship between trust and **shared values**. Some overlap in values is necessary in order to have a relationship at all. However, it is neither necessary nor sufficient to have identical values.

Where value systems are similar, small differences in values may be either overlooked altogether, or exaggerated in importance. These differences should be respected, but kept in proportion.

Some people adopt the attitude: “These are the values you must have if you want to do business with me.” This may create an incentive for other people to falsify their declared values, which reduces the total trust in the system as a whole.

If we share some assets, then we probably need to share some values in relation to those assets. If I **entrust** you with something I regard as extremely valuable or important, then I want you to treat it with due respect. Either you must value it as highly as I do, or you must treat it as if you did.

This is particularly difficult to negotiate with relatively intangible assets, such as customer relationships or intellectual property.

Consultancy networks always struggle with questions of trust. How can I trust you to behave in front of my clients? And how should I behave in front of your clients, to repay your trust?

Trust and risk.

If I take risks, that's my own affair. But if I break my leg, or lose my driving licence, or get thrown into prison, that may affect my ability to fulfil my obligations to other people. Can we really trust people who are unreliable, because of the risks they take?

There is a particular concern about the use of shared or borrowed assets. What risks may we take with other people's assets? This is a difficult area, where there are no clear rules of conduct. Some people think they are morally bound to take greater care of other people's assets than of their own, while other people are equally careful or careless.

If someone appears to be reckless with his own assets, does that entitle us to take similar risks with his assets?

Collaborative gambling raises further difficult issues about trust and shared risk. Many forms of proxy gambling are illegal, because of the huge opportunity for abuses of trust. (Suppose I place a bet on your behalf and then "lose" the ticket. Suppose I buy two lottery tickets, and only decide after the draw which one was yours.) But there are many commercial situations that have a similar structure of shared risk.

Trust and scale.

Is it easier to trust large organizations or small ones?

Talking of a change of scale in the social order, Geoff Mulgan writes: “One of the best signs of this return to smallness in many Western societies has been the decline in trust in big institutions, such as manufacturers, governments and trade unions, and the corresponding rise in trust in personal relationships.”

Trust and system.

Trust is often expected to be associative. If A trusts B and B trusts C, then A must trust C. "You mustn't do business with someone I don't trust." (This might reduce to the rational calculation: "I don't trust your judgement or bona fides.")

Trust is an emergent property of a system of relationships. Where such a system manifests some form of bad faith or betrayal, it may seem obvious which of the players in the system is “guilty”. The rest of the players, together with informed observers, now mistrust this player, and perhaps avoid doing business with him. But the phenomenon may be more complex than that, and the ostracized player is merely a scapegoat. Mistrust by symptom, mistrust by association.

Guarantors and regulators serve the function of increasing the overall level of trust in a system. But unwise guarantees may merely create moral hazard. It is sometimes argued, for example, that if the Bank of England is committed to rescue failed banks, this may increase the recklessness of individual banks, and thus have a counter-productive effect on the banking system as a whole.

Further Reading

Diego Gambetta (ed), ***Trust. Making and Breaking Cooperative Relations*** Basil Blackwell, 1988. Currently out of print – available on web at http://www.sociology.ac.uk/trustbook.html

Geoff Mulgan, ***Connexity: How to Live in a Connected World***. Chatto & Windus, 1997.

Richard Veryard, ***Plug and Play: Towards the Component-Based Business.*** Springer-Verlag, 2000 (forthcoming).

Richard Veryard, “Reasoning about Systems and their Properties”. To be published in Peter Henderson (ed), ***Systems Engineering for Business Process Change Volume 2***, Springer-Verlag, 2001.