# Trust in Knowledge–Based Organizations

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## INTRODUCTION

The knowledge-based society of the 21$^{st}$ century is characterized by knowledge generation as the primary source of wealth and social well-being. As partly intangible in nature, increased understanding of knowledge and information as a resource is critical (Sveiby, 1996; Teece, 1998). Such intangibles are gradually replacing traditional elements of power in states (Rosecrance, 1999), also emphasizing the role of trust in the positive aspect of economic globalization.

This development is supported by the resource and knowledge-based views of an enterprise (e.g., Barney, 1991; Grant, 1996; Penrose, 1959) and the idea of organizational learning (Argyris & Schön, 1996). A holistic view of contextual factors and means, such as trust, is necessary for managing knowledge and information processes to enhance them as a resource, whose value is difficult to estimate in economic, quantitative terms (Yates-Mercer & Bawden, 2002). To combine human, technological and structural factors in a unique manner is critical to prolonging strategic capability and sustainability. Knowledge creation occurs by combining people's distinct characteristics with a particular set of activities. Moreover, the core capabilities are created through activities consisting of values and norms, skills, managerial and physical systems (Leonard-Barton, 1995, p.25; Prahalad & Hamel, 1990). These four dimensions also relate to social capital.

In this article, we seek better understanding of knowledge-related processes in respect to trust and social capital. The foci are on trust as related to organizational culture and climate and to collaboration enhanced by appropriate organizational structures.

## BACKGROUND

It is demanding to define the concept of knowledge management (KM) due to the difficulty of defining the concept of knowledge and its relation to the concept of information (see, e.g., Wilson, 2002). The perception of KM as providing knowledge representations/artefacts stored for use in information systems is close to information management (IM) (Davenport & Cronin, 2000; McInerney, 2002), though information and knowledge are distinctive concepts. The goal of KM is to transform information into learning, insight, and commitment to action, which requires turning personal knowledge into corporate knowledge to be widely shared and appropriately applied (Choo, 1998; Skyrme, 1997).

Knowledge is often understood to consist of explicit, implicit and tacit elements. Nonaka's (1994; Nonaka & Takeuchi, 1995) theory of knowledge creation, the SECI model, popularized Polanyi's (1966) identification of the tacit nature of knowledge in the mid-1990s. However, many authors argue that tacit knowledge is understood too superficially in the conceptions of KM (Yates-Mercer & Bawden, 2002) when actually referring to implicit knowledge (Nahapiet & Ghoshal, 1998, p.246; Orlikowski, 2002; Wilson, 2002). Tacit knowledge is the most intangible and very personal form in organizations and thus difficult to articulate. Manifested in organizational practices, the constructionist viewpoint that regards knowledge as a social construct (e.g., von Krogh, 1998) may prove appropriate to understand this phenomenon.

## ORGANIZATIONAL KNOWING

The social nature of knowledge and information calls for the concept of organizational knowing and its management (Brown & Duguid, 2000; Choo, 1998; Choo & Bontis, 2002). Cook and Brown (1999) claim that innovation as "a generative dance" is an outcome of the interplay of knowledge and knowing. Orlikowski (2002) views cognition and action as inseparable that makes articulation of tacit knowledge unnecessary. The concept of a community of practice has evolved as knowledge appearing as a collection of processes that allow learning to occur and knowing to be internalized (McInerney, 2002, p.1012). Blackler (2002) argues that the five types of knowledge (embrained, embodied, encultured, embedded, encoded) are insufficient to account for knowledge as a social process. Boisot's (1998) contention is that the evolution of knowledge forms a social learning circle: through the codification of shared experience, personal knowledge

can become proprietary knowledge or the intellectual capital of an organization. Once externally scrutinized, this knowledge becomes public while widely internalized, it turns into common sense. The assumption that knowledge exists in people's minds makes it hard to manage causing much debate about the relevance of the concept of KM. The management of people is as crucial as the management of information when aiming at the strategic management of knowledge and information as a resource (Huotari & Iivonen, 2004). Thus, the structure of the organization itself becomes critical to sharing, based on trust, and re-creation of knowledge throughout the organization.

## TRUST

Trust is based on expectations of other people's willingness and ability to fulfill our needs and wishes (e.g., Fukuyama, 1996). That presupposes similar or related worldviews and shared meanings. This refers to normative trust assuming that common values provide a frame of reference for social norms creating predictability and trustworthiness. "Trust is… an intersubjective 'reality' that cannot exist… unless the symbols used to signal trustworthiness have meaning for all parties." (Hardy, Phillips & Lawrence, 1998, p.70). However, this type of trust has been challenged, too (Lane, 1998, p.8).

Trust is manifested in people's behavioral patterns, and honesty and predictability build it up (e.g., Ciancutti & Steding, 2000; Shaw, 1997). Trust has been called a communicative, sense-making process in which shared meanings develop to bridge disparate groups also in interorganizational relationships (Hardy et al., 1998). As a social phenomenon, trust is therefore a highly desirable property that also affects the well-being of the work community, produces commitment and internalised accountability, and provides a way to cope with risk and uncertainty (Huotari & Iivonen, 2004; Lane, 1998).

## FUTURE TRENDS

The major managerial challenge in the globalized economy is the pooling of the intellectual capital of collaborators in a partnership. Trust is the basis for and co-evolution of social capital and through it is manifest in the concept of intellectual capital. Social capital, in particular, whose foundation is human behaviour may gain more emphasis in the future. Because personal relationships provide the basis for unique, networked organizational activities differences in types and levels of developed trust may result in different levels of resource exchange and flows (Nahapiet

& Ghoshal, 1998, pp.245, 255; Tsai & Ghoshal, 1998; see also, Adler & Kwon, 2002).

Organizational culture and climate are revealed by values which form the basis for social norms and refer to social capital. Normative trust is essential for organizational knowledge involving the creation and maintenance of trust, and the resulting norms of behavior, that are important for knowledge sharing, for example, in communities of practice (Tuomi, 2002; Wenger, McDermott, & Snyder, 2002). Such facilitators as boundary spanners or roamers are an important component of the infrastructure of communities of practice contributing to the diffusion of knowledge between communities (Davenport & Hall, 2002) thereby strengthening social capital.

The development of a knowledge culture may promote learning and sharing of what is known. Trust is a core organizational value allowing people to communicate openly and without fear of unethical conduct. Dialog can build a culture for the continuing creation and sharing of knowledge. Moreover, trust is fundamental in virtual communities (McInerney, 2002, p.1014; Sonnenwald, 2004).

Collaboration relates strongly to trust and networking and enables converting individual knowledge into organizational knowledge. It is a cornerstone of social capital and necessary for innovating and accomplishing tasks in knowledge-based organizations. Collaboration and trust have a two-way relationship (Huotari & Iivonen, 2004). Co-workers learn to trust each other, but swift trust is required when collaborating without a long history of working together (e.g., Davenport & McLaughlin, 2004). Networking requires that collaboration as a behavioral model is encouraged by appropriate strategies related to the communicative and sense-making processes to cross borderlines and bridge gaps. For example, the cognitive distance of network members inhibiting collaboration can be decreased by establishing so called "epistemic communities" of shared mental categories, meanings and interpretations (Nooteboom, 2002, pp.23-29). These strategies facilitate trust and can strengthen social capital.

Organizational hierarchy may also affect knowledge sharing and the type of trust or mistrust developing. A low hierarchy and open organizational culture enhances information flows whereas a strong hierarchy has a negative effect on knowledge sharing in a multiunit organization where units compete against each other. Informal lateral relations, in turn, have a positive effect on knowledge sharing among units that compete in the market place but not when competing for internal resources. Thus external market competition in particular influences knowledge sharing and allows units to accumulate social capital (Hansen, 2002; Tsai, 2002). Social capital facilitates the creation of intellectual capital (Nahapiet & Ghoshal, 1998, p.246). Social interaction and trust increase knowledge

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