

# Trust and its Impersonal Nature

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## INTRODUCTION

In the knowledge-based network economy, trust is becoming an increasingly important issue. Both economists (Arrow, 1974) and sociologists (Luhmann, 1979) have pointed at the role of trust as a lubricant in managing uncertainty, complexity, and related risks. Trust reduces transaction costs, and increases spontaneous sociability (see Creed & Miles, 1996; Kramer, 1999). Trust can also have a critical role in enhancing knowledge creation and transfer within the organizational context (Kogut & Zander, 1992; Grant, 1996). Trust is an intriguing and paradoxical issue: in the modern society we need trust more than ever, yet we have less natural opportunities for trust to evolve (Lahno, 2002; Blomqvist, 2005).

We believe that due to organizational and management challenges, future organizations cannot rely on interpersonal trust only, but demand complementary forms of trust to enhance knowledge creation and transfer, as well as exchange under risk. However, few studies of impersonal trust are relevant for emerging social structures, such as virtual organizations. In general, virtual organizations are formed by business partners and teams who work across geographical or organizational boundaries with the help of information and communication technologies (Rachman & Bhattachryya, 2002).

In this article, we focus on the impersonal nature of trust. Our research objective is to analyze the impersonal nature of trust in organizational and virtual contexts, and to explore its antecedents or building blocks. Our research questions are: How can impersonal trust be understood in organizational and virtual interactions? What are the sources of impersonal trust? The study has been conducted as a critical literature review. We contribute theoretically by analyzing the scattered

research on impersonal trust. We will first discuss the nature and role of impersonal trust, and secondly outline the sources for impersonal trust from the relevant, but dispersed literature. Finally, we will conclude by emphasizing the need of a more encompassing theory of trust.

## BACKGROUND

So far, much of the trust research in both the organizational and virtual contexts has focused on interpersonal trust (on virtual teams, see Järvenpää et al., 1998). Barber (1983, ref. in Kramer, 1999) has defined trust quite broadly as “socially learned and socially confirmed expectations that people have of each other, of the organizations and institutions in which they live, and of the natural and moral social orders that set the fundamental understandings of their lives.” Rotter (1967) has developed an interpersonal trust scale measuring also aggregated levels of trust, that is, generalized expectation towards other actors, media and institutions. Zucker (1986) shows in her historical analysis of 19<sup>th</sup> and 20<sup>th</sup> century American socio-economic system how characteristic- and process-based trust has been supplemented by “institutional-based trust.”

By definition, impersonal trust refers to *trust relationships that are not based on direct personal contact*; it has been considered as a type of an *indirect* social relationship, where for example, markets, administrative organizations or information technology serve as *mediators* (Calhoun, 1992, ref. in Pixley, 1999, see also Shapiro, 1987). Thus, as distinct from dispositional trust and more abstract, system-level forms of trust (see Luhmann, 1979), *identifiable objects* of trust are involved. When information about an agent’s trustworthiness is mediated by an impersonal system

or structure, also such systems themselves have to be trusted (Sztompka, 1999). Impersonal forms of trust may be gained more easily than interpersonal trust, but they also carry certain risks; institutionalized trust may reach a degree of stability which nourishes unjustified trust (Shapiro, 1987; Lahno, 2002).

Much of the research of trust in mediated relationships in the virtual context focuses on trust in online merchants and their Web sites (Olson & Olson, 2000). Prior research has equalized issues of impersonal trust with trust in e-commerce systems, or applied the view of dyadic interpersonal trust even in conditions where no such dyads exist (Ridings et al., 2002; see Mayer et al., 1995). Therefore, we argue that it is useful to broaden the concept of impersonal trust to the field of networked and virtual organizations to better understand their dynamics, and especially the early phases of relationship development. In comparison with traditional face-to-face interaction, the role of impersonal trust may become emphasized online in both inter-organizational and intra-organizational contexts, as direct relationships between two parties are challenged by issues of distance, time, security, anonymity, lack of physically individuating cues, and lack of personal experience about the situation.

## IMPERSONAL TRUST IN THE VIRTUAL CONTEXT

Three important forms of impersonal trust can be identified in interaction in the virtual context: 1) *institutional third-party trust*, such as a reputation system or a trusted third party (Abdul-Rahman & Hailes, 2000; Ba, 2001; Pavlou et al., 2003; Resnick, 2005); 2) *institutional bilateral trust*, such as secure communication, dyadic standards and contracts (Pavlou et al., 2003); and 3) trust that is at a *collective* level (Spears & Lea, 1992; Kramer et al., 1996; Järvenpää et al., 1998; Boyd, 2002). While the former refer to *inter-organizational* relationships, the latter represents *intra-organizational* processes of identification and trust.

Pavlou et al. (2003) discuss two types of institutional trust in online inter-organizational context, namely, third-party institutional trust (intermediaries, such as in online marketplaces) and bilateral institutional trust (inter-organizational processes, standards and norms). On the other hand, inside virtual organizations the notion of collective trust may better enhance our

understanding about the nature of interaction. Next, we will discuss the instances of virtual impersonal trust in more detail.

## Institutional Third-Party Trust

In conditions of reduced personal cues, and especially in large systems, it is beyond each individual's resources to evaluate all aspects of a given situation. Thus trust information must be provided by external sources (Abdul-Rahman & Hailes, 2000). Indeed, Resnick (2005) names reputation systems as a form of impersonal social capital among collective action in environments mediated by information and communication technologies. When direct contact is lacking, reputation systems help individuals to decide who to trust by gathering information about others' past behavior and making such information available to the community (ibid.). So called *trusted third parties* (TTPs), in turn, authenticate agents and disseminate information about their behavior. The digital certificate issued by a TTP indicates both authenticity and reputation: thus anyone who holds a valid certificate should be regarded as a reputable agent (Ba, 2001).

Institutional third-party trust is typical for large virtual systems, such as in B2C and B2B e-commerce. These systems cultivate trust through third-party certification (institutional mechanisms such as trust seals) and reputation (Castelfranchi & Tan 2002; Chang & Cheung, 2005). For a comprehensive review on trust in e-commerce, see Shankar et al. (2002).

## Bilateral Institutional Trust

According to Pavlou et al. (2003), institutional trust mainly deals with third parties. However, *institutional processes, standards and norms* also help to manage exchange between and within organizations. Bilateral institutional trust is "the subjective belief or confidence that there are fair, stable, and predictable shared routines, processes, and norms to enable successful transactions" (Dyer, 2000; ref. in Pavlou et al., 2003).

Thus, bilateral institutional trust differs from inter-organizational trust in the sense that it is based on processes and routines, not the organization or its members. Pavlou et al. posit three dimensions of institutional trust: in addition to *structural assurances* and *situational normality* (McKnight et al., 1998), there are *facilitating conditions* that are less formal than

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