

Contextual Confidence and Active Trust Development in the Chinese Business Environment

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Abstract

This paper contributes to the conceptual and empirical understanding of organizational trust. It confirms the importance of “contextual confidence” in institutions for building trust. Moreover, it extends models of trust production to include the effects of purposive action by the truster over and above the contextual prediction of trust emphasized in previous research. Accordingly, “active trust development” is conceptualized as a strategy to strengthen the basis for trust. Empirical evidence is drawn from a survey of 615 Hong Kong firms that manage operations in mainland China.

Confidence in China’s institutional context was found to have a strong positive association with trust in the local staff working within that context. Active trust development was validated as a means of enhancing trust, though its effect on trust was not as strong as that of perceived institutional effectiveness.

Active trust development initiatives are particularly valuable in an environment such as contemporary China, where the institutional foundations for trust remain underdeveloped. The positive correlation of trust with organizational performance provides an incentive for managers to explore these initiatives. At the same time, government and other bodies in China and elsewhere, which are in a position to create and promote effective institutions, are encouraged to intensify their efforts in that direction.

(China; Cross-Border Relations; Institutions; Organization Theory; Trust)

Introduction

China provides a distinctive context for research on trust, testing the limits of theories emanating from modern Western societies. It is commonly and correctly regarded as a country in which economic relations are strongly dependent on trust while, at the same time, trust is difficult to build there beyond fairly restrictive circles defined

by kinship or tight social networks (e.g., Fukuyama 1995, pp. 69–95). This has been seen as problematic, especially for foreign investors wishing to enter the Chinese market (Child 1994, 1998). The fact that China, among emerging economies, is the most important destination of direct investment by foreign companies lends practical significance to the degree of trust that the managers of those companies can invest in local personnel. The nature of trust in China and its impact on organizational behavior therefore present a challenge to our theorizing of the subject, as well as to managerial policies aimed at building trust in that context.

Chinese culture is often noted for its particularism and insistence on building up trust through cultivating personal relationships into which it is difficult for foreigners to enter (Trompenaars 1993, Hickson and Pugh 2001). The question is, what gives rise to these distinctive characteristics? Scholars of trust have emphasized that its study needs to be sensitive to social context, including institutional norms and safeguards (Zucker 1986, Lane and Bachmann 1996, Bachmann et al. 2001). Some identify the root cause of the issue in China as the underdevelopment of its institutions compared to most other industrial countries, which permits both capriciousness and corruption (Child and Tse 2001). This helps to explain both why the Chinese do not easily extend trust outside their familiar social circles and why foreigners find it hard to trust the Chinese on general principles as embodied in effective institutions (EIU 1999). China’s entry into the WTO has therefore been welcomed as a commitment to developing such institutions according to international norms, but with reservations about how quickly this can be achieved (*China Business Review* 2000).

China’s institutional limitations differentiate it as a context for trust and promise some new insights. It is possible to draw an analogy between what Zucker (1986,

pp. 82ff) describes as “the push for institutional-based trust” in the United States at the end of the 1800s and the changes currently occurring in the modernizing, but arguably not yet fully modern, Chinese society and economy. Unlike Zucker, who had to use historical analysis for the United States, trust researchers today can study and comment upon the developments in China in “real time.”

The first aim of this article is to address the institutional perspective on trust with empirical evidence from a survey of 615 Hong Kong firms that manage operations in mainland China. Hong Kong is the largest source of direct investment into China, which entails direct working relationships between the managers of investing firms and their local mainland staff. In accordance with neoinstitutionalist views of trust (e.g., Zucker 1986, Lane and Bachmann 1996) that see trust relationships as dependent on trusters and trustees being embedded in, and making reference to, institutional norms, we test whether a positive perception of Chinese institutions by Hong Kong managers has a positive effect on their trust in local staff. Assuming a positive correlation between trust and performance, which we also test, we are therefore interested in whether the current endeavor of the Chinese authorities to build reliable institutions can be expected to foster business with and within China.

A second, and equal, aim of this study entails the conceptual extension of current trust production models. It can be shown that research on trust to date regards the truster as a rather passive figure who reaches (or fails to reach) the state of trust on the basis of “given” factors such as her/his own predisposition, the perceived trustworthiness of the trustee, and/or relevant institutional safeguards. In other words, the context is seen to determine whether a truster trusts. What is overlooked in this perspective, however, is the very real possibility that the truster can influence her/his own context more or less deliberately in favor of trust. Thus we distinguish between *contextual confidence* and *active trust development* as paths to trust. We test whether the establishment of personal rapport and the transfer of business practices from the headquarter/parent company enhance trust in the local China staff. This additional research question has important implications because an affirmative result would indicate that not only Chinese authorities, but also the investors themselves can foster (though not guarantee) trust in Chinese business through purposive action. This view is commonsensical to practitioners operating in China, but has not yet been captured by systematic empirical research.

In the next section, we lay the conceptual foundations for this article and demonstrate that influential models of

trust production have been one-sided in focusing on the degree of contextual confidence that is “given” from the point of view of the truster, while overlooking active trust development through which trust can be “made” or “constructed.” We then present the Chinese context with particular reference to trust and develop hypotheses from this analysis. This is followed by the methods and results of the empirical study. Finally, we discuss the implications of our work for conceptual development, further empirical research, and management practice in China.

Contextual Confidence and Active Trust Development

For the purposes of this paper, we adopt the widely accepted definition of trust as “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another” (Rousseau et al. 1998, p. 395). A crucial question for trust research has been how this psychological state is produced, and a great amount of research has looked at the “sources,” “foundations,” or “bases” for trust, treating trust as a dependent variable and identifying the various independent variables from which it springs. The underlying mechanism for these models is that the truster somehow processes the “given” independent variables and thus reaches a state of trust or mistrust that can be relatively strong or weak.

For Rotter (1967), it is a given personal predisposition as part of the truster’s personality that leads to trust. For Deutsch (1958) and Coleman (1990), trust is a matter of rational choice made by the truster but determined completely by the calculative processing of signals of trustworthiness and subjective probabilities (see also Dasgupta 1988, Gambetta 1988b, Hardin 1993, Williamson 1993, Bacharach and Gambetta 2001). In the rational choice perspective, the truster may influence the quantity and quality of information on which calculations are made, but does not influence the “trust game” as such. Mayer et al. (1995) combine Rotter’s concept of “truster’s propensity” with the rational choice idea of “perceived trustworthiness” and thus achieve a more complete model of trust production that, however, still leaves the truster in as passive a role as before. McAllister (1995) broadens the perspective further by including “affect” as a basis for trust next to “cognition,” but in his model the truster equally merely reacts to trust stimuli (see also Lewis and Weigert 1985 on “emotional trust”).

The model developed by Lewicki and Bunker (1996) introduces calculus, knowledge, and identification as three bases for trust that build on each other over time. While this model is more dynamic and dyadic than the

others, the trusters still remain rather passive because they only move to a higher stage of trust if and when the basis for this happens to develop. Only when trust needs to be repaired do Lewicki and Bunker expect the trusters to actively “work on” trust. Lane and Bachmann’s (1996) research exemplifies neoinstitutionalist approaches in that it emphasizes the role of institutions such as the legal system and trade associations for trust production. While this offers important insights, the potential role of trusters in shaping or building upon such institutions is underplayed. This is also true for the model developed by Zucker (1986). Accordingly, a truster can draw on past experience (“process”), signs of cultural similarity (“characteristics”), and/or institutions to produce the state of trust towards other actors. These bases are clearly relevant, but the truster’s influence on them is hardly discussed (though neither is it denied).

It is important to note that Zucker’s analysis entails a notion of historical progression from traditional to modern societies reflecting the processes of industrialization and urbanization in Europe and America during the period of her study: 1840–1920. Interestingly, however, Zucker not only argues convincingly that trust in modern societies relies heavily on *institutional* bases, but also acknowledges the continued role of *traditional* sources of trust: prior exchanges and common characteristics. One would expect these traditional trust bases to play a relatively more significant role in modernizing societies like China, where institutions are not as yet effective. The central role of the family in Chinese business can be taken as evidence for this (Redding 1990).

In one of the more recent comprehensive theories of trust, Sztompka (1999) includes all three groups of trust foundations identified in the literature reviewed above (as do McKnight et al. 1998): “trusting impulse” (predisposition), “reflected trustworthiness” (cognition), and “trust culture” (institutions). Sztompka discusses the possibility of fostering trust at the government and abstract societal level, yet also underplays the possibility that individual trusters can actively shape the trust foundations and, as a result, make trust more or less likely. In conclusion, we acknowledge the value of the different trust models proposed and the idea that trust has to rest on certain foundations that may be just as diverse as the research aiming to identify them. We are not satisfied, however, with the notion that the truster can only draw on “given” contextual variables (including her/his own personality and cognitive capability). Rather, we wonder whether the truster can play a more (pro)active role in trust production, perhaps especially where the contextual foundations for trust are weak.

As a first step in opening up this perspective, it is helpful to consider Luhmann’s claim that “trust has to be achieved within a familiar world” (1988, p. 95; see also Luhmann 1979). In the first instance, this clearly supports the above models to the extent that the trusters have to start from what they know; i.e., what to them is “given.” In the same source, however, Luhmann (1988, pp. 95–97) goes on to note that actors do not just “happen” to be familiar with something; they play an important part in this through an active process of *familiarization*. Therefore, if familiarity is the general foundation for trust, then the idea of familiarization should lead us to conceptualize trust development as an activity for the truster rather than just a consequence of given factors.

Familiarization could be particularly important when the context is ambiguous or uncertain and does not give confidence. This is the case when an actor enters a “foreign space” and does not know the local history and institutions or to whom they apply. Building on Giddens’s (1994, pp. 186ff) preliminary sketch of “active trust” as requiring intense and intimate communication, we assert that the idea of active trust development may be very relevant for modernizing societies such as China, where the strong institutions commonly associated with modernity are not yet working reliably. If we accept an interpretative epistemology, it follows that the context for trust and the actions of the truster represent a duality anyway (Giddens 1990, Sydow 1998, Möllering 2001). In other words, trust is a social construction: not simply “given” to trusters, but “made” by them as well.

Interestingly, somewhat less academic- and more practitioner-targeted publications on trust naturally talk about what managers can *do* to promote trust (e.g., Shea 1987, Handy 1995, Shaw 1997, Zand 1997, Shurtleff 1998). The evidence for “what works” is mostly anecdotal or cursory; however, it appears worthwhile to more systematically examine which kind of activities over and above a “given” context, promote trust. Therefore, in this article, we not only examine the “given” side of trust production (in this case the contextual confidence that Hong Kong managers have in mainland China, especially regarding its legal system, the behavior of officials, and the availability of competent human resources), but we also investigate active trust development by those managers using the examples of personal rapport development, local recruitment, and business practice transfer. Both categories are hypothesized to have positive effects on the trust that Hong Kong managers have in their mainland staff.

As simple as this conceptual framework may appear, it extends the scope of trust production models and has important implications. If both positive effects are confirmed, then Chinese authorities should continue, and

probably even intensify, their efforts in building effective institutions and rooting out corruption, while foreign investors should be encouraged to start or reinforce active trust development initiatives, instead of just pointing at the current inadequacies of Chinese institutions. We also test the hypothesis that trust improves performance (Sako 1998, Zaheer et al. 1998) which, if confirmed, provides an incentive for management to pursue trustful relations with and within China.

Trust in China: Research Hypotheses

Contextual Confidence in Institutions

China has long experienced difficulties with the institutionalization of legal norms and the administrative system, which persist despite its now considerable economic modernization. Its low levels of institution-based trust have deep roots in the capriciousness of China's imperial and postimperial rule, the chaos and exploitation that accompanied periodic breakdowns of political and social order, and the lack of clear civil rights, including those of private property (Rodzinski 1983, Fukuyama 1995). Despite the continued institutional reform since 1979 that has begun to evolve a distinct body of legal rules and institutions, evidence suggests that the law in China is often still uncertain in its implementation and subject to political considerations (Lubman 1995, Child and Tse 2001). The difficulties facing managers in reaching trust-enabling confidence in institutions and their representatives ("access points," see Giddens 1990) are due to high levels of inconsistency, arbitrariness, and corruption on the part of officials. For example, managers cannot be certain that the courts will uphold sanctions against untrustworthy behavior by employees or that the payment of accounts receivable by other organizations can be enforced. The problem has been recognized at the highest level: Former Premier Li Peng stated that the struggle against corruption "is a matter of life and death for the nation" (quoted by McDonald 1995, p. 175).

While institutions preventing arbitrary behavior may not work consistently in China, the perceived availability of educational institutions and training can at least provide people with reliably certified competencies that should assist managers in placing trust in such people when they employ them and in delegating local organizational responsibility to them. Satisfaction with the availability of competent human resources should therefore strengthen contextual confidence among the managers of investing firms which in turn enhances their trust in local management. China is improving rapidly in the area of institutional development in education, though not at a pace that meets demand (UNDP 1999).

More generally, neoinstitutionalist research on trust (Zucker 1986, Lane and Bachmann 1996) has shown that the embeddedness of trusters and trustees in social systems plus the institutional support provided by rules and norms, if and when they are seen as effective, strongly promote trust relations. Contextual confidence thus matches Luhmann's (1979) concept of "system trust," a kind of abstract trust (see also Giddens 1990) that can support trustful relations between individuals.

These considerations suggest that contextual confidence is likely to be a significant factor in the trust that the managers of foreign investing firms can have in their staff in mainland China. They lead to the following hypotheses:

HYPOTHESIS 1. The more confidence managers of foreign investing firms have in the effectiveness of China's legal system, the stronger their trust in their staff in mainland China.

HYPOTHESIS 2. The less arbitrary foreign managers perceive Chinese officials to be, the stronger their trust in their staff in mainland China.

HYPOTHESIS 3. The more satisfied foreign managers are with the availability of competent human resources in China, the stronger their trust in their staff in mainland China.

Active Trust Development

According to this analysis, China is a modernizing, but not yet modern, economy and society in which the extent to which trust in business relations can rely on contextual confidence supported by a comprehensive institutional system will remain variable for some years to come. To leave the analysis at this point, however, would neither be theoretically complete, nor useful for organizational policy. The question arises whether foreign managers (representing investors) have certain possibilities to foster trust in this type of environment through their own actions (see Humphrey 1998 for similar considerations in the context of India). Therefore, the focus of our analysis has to shift to the notion of active trust development. This concerns the innovative ways in which foreign managers can seek to build trust in Chinese partners and staff in a context where they cannot readily benefit from the close personal relationships that form an important traditional basis of trust in China, and cannot necessarily draw on institutional supports either. Because active trust development depends heavily on the truster's ability to make a leap of faith (see Giddens 1991, Möllering 2001) rather than on confidence in the context, the resulting trust is liable to be rather tentative in nature and thus carry a higher perception of risk.

One strategy in active trust development is to establish personal rapport with the staff of operations in China, thereby establishing a system of personal relationships both within and outside the business venture. Such personal relations not only enhance the exchange of relevant information, they also motivate the parties involved to behave less opportunistically towards each other, given their mutual knowledge of (and identification with) each other's interests and problems as well as a reciprocal feeling of responsibility (Cullen et al. 2000).

A second strategy is to locally recruit managers (Lassere and Ching 1997). Investors demonstrate that they are willing to increase their vulnerability by relying on local managers rather than sending in expatriates. Ideally this will pay off, as local managers appreciate such signals of trust and reciprocate by using, to the advantage of the investor, the respect and authority they enjoy when dealing with local workforces and business partners. In practice, localization has its hazards (Gamble 2000), and during the recruitment process it appears necessary for building good relationships with local managers to carefully screen for those people who, thanks to their youth and education, possess favorable attitudes and skills from the point of view of the investing company.

A third strategy of active trust development involves a company attempting to substitute its own "micro-" institutionalization for the lack of institutional foundations, through importing its familiar practices, rules, and standards into its cross-border operations. The transfer to China of standardized practices (accounting, quality, production, HRM, and so forth) is intended to infuse familiarity on both sides with a view to the expected conduct of local Chinese personnel (Lu and Björkman 1997). For their part, many employees in China working for outside companies look favorably on their employers because the firms tend to behave as rational bureaucracies applying norms of equity and transparency (Child 1994). As a consequence, their Chinese staff are more likely to be trustworthy. This strategy of transferring standardized practices has been advocated quite strongly by western consultants (e.g., Meier et al. 1995), whose discussions connect it with the advocacy of methods to secure greater control over operations in China. Interestingly, introducing control into an unfamiliar context may help to establish the familiarity and predictability that enables trust building. In this sense, trust and control can be seen as complementary rather than as conflicting. We return to this point in the discussion section.

The strategies for active trust development outlined above are expressed in the following hypotheses:

HYPOTHESIS 4. *The more that managers of foreign investing firms use methods to establish personal rapport*

with the staff of their operations in mainland China, the stronger their trust in that staff.

HYPOTHESIS 5. *The more that managers of foreign investing firms recruit managers for their operations locally in mainland China, the stronger their trust in local staff.*

HYPOTHESIS 6. *The more that managers of foreign investing firms succeed in transferring their own business practices to operations in mainland China, the stronger their trust in local staff.*

Control Variables: Length of Time in the Environment and Cultural Similarity

Two other potential correlates of trust are treated as control variables. By its very nature, active trust development requires time to be realized. While it is possible that relationships between foreign managers and local staff may deteriorate over a period of time with a resulting decline in trust and that it may take time to recognize untrustworthiness, this does not detract from the point that the development of trust itself requires time, especially when it cannot draw on generalized institutions but only on individual investments. The length of time that a company has had operations in mainland China therefore constitutes a relevant control variable.

A second relevant control variable is the degree of cultural similarity that may exist between the managers of firms investing in China and local Chinese staff. In addition to the possibility of belonging to the same extended family, cultural similarity arises with membership of common social networks. Among the Chinese these networks can be quite extensive, taking on clanlike qualities (Boisot and Child 1996). They are typically linked to a common hometown or region. These considerations suggest a positive relationship between cultural similarity and trust. The overall reason for this is that we are more "fluent" in reading the trust-relevant signals, symbols, and patterns of our own culture than others. Signaling theory (Bacharach and Gambetta 2001), symbolic exchange theory (Haas and Deseran 1981), ethnomethodology (Garfinkel 1967), Zucker's (1986) process- and characteristic-based forms of trust and many other approaches lead us to conclude that, as a rule, actors trust others more easily if their cultural background is similar, and most easily if they come from the same background.

According to this argument, when managers of foreign investing firms are Hong Kong Chinese, the location of their mainland units in the culturally more contiguous province of Guangdong rather than other parts of China will provide an additional basis for them to trust their local mainland staff. There is a historically strong ethnic,

cultural, and language linkage between Hong Kong and Guangdong. The two territories share large Cantonese and Chiu Chow communities. About 95% of the residents of Hong Kong are Cantonese-speaking, and the majority of Hong Kong people were either born or are descended from counties and villages in Guangdong Province (Mondejar 1994). As many as 80% of Hong Kong's Chinese population have relatives in Guangdong (Hobday 1995). Given that the foreign investing firms studied here are from Hong Kong, these considerations suggest that the cultural similarity between Hong Kong and Guangdong should be treated as a further control variable.

Empirical studies into expatriate experiences in mainland China do, however, present a serious qualification to this. Rather against expectation, it has been found that cultural similarity can introduce strains into the relations between expatriate and local personnel. Selmer (1998) comments that "paradoxically, the common Chinese heritage seems to aggravate the adjustment problems of Hong Kong managers in China instead of facilitating acclimatization" (pp. 158ff). The tolerance of local staff for differences in Hong Kong managers' style, compensation, and privileges appears to be reduced by the perception that they are members of the same ethnic culture, and this can cause resentment and hostility.

We also hypothesize (see Hypothesis 7) that the ability to develop higher levels of trust in the staff of cross-border organizational affiliates located in China will enhance the performance of those units. This assumption is consistent with academic thinking (Sako 1998, Steensma and Lyles 2000, Zaheer et al. 1998), and it also informs the importance that managers commonly attach to the generation of trust within and between organizations (Kramer and Tyler 1996, Lane and Bachmann 1998). For a cautionary note in this regard, however, see Kern (1998) on the detrimental effects of a "surfeit of trust," such as complacency and lack of constructive criticism.

HYPOTHESIS 7. The stronger the trust of Hong Kong managers in their mainland China staff, the more satisfied they will be with the performance of their China operations and the faster the growth of such operations will be in terms of sales and profit.

Sample and Method

Survey Context

The seven hypotheses developed above are now examined and illustrated by reference to a recent study of 615 Hong Kong companies managing operations in mainland China. This study, of which our analysis is but a part, was

a large empirical project concerned with the performance-related experience of Hong Kong firms in China (see Child et al. 2000). For Hong Kong firms, the management of their units in mainland China is effectively one of cross-border operations. Although Hong Kong was politically reunited with mainland China in 1997, the border between them continues to be maintained as strictly as before. Under the "one country, two systems" formula, Hong Kong's and China's regulatory and other institutional systems remain quite different, as do their respective levels of economic development. Thus, from an economic, and even subcultural, perspective, Hong Kong and mainland China can be regarded as separate territories with a degree of "foreignness" between them. In accord with common usage, even in Hong Kong, we shall normally refer to mainland China simply as "China."

Sample

The target population was identified as all firms operating in Hong Kong and managing at least some activities in China. This includes firms who have employees in China or who have at least partial managerial responsibility for activities located there through joint ventures and other forms of cooperation. Companies whose activities are restricted to trading were not included. Because the target firms are defined by their activities in China, they are not covered by Hong Kong's relatively comprehensive statistical system. Hence, there is no available listing from which to sample firms and no census data on the characteristics of the population as a whole. In the absence of a sampling frame containing the full population of target firms, and bearing in mind the need to secure cooperation for the data collection process, it was decided to use the membership lists of major business associations. The Hong Kong General Chamber of Commerce (HKGCC) is the most prominent of these, but its membership distribution is skewed towards larger companies. Because it was desirable to include more small companies to provide a more representative sample, three other business associations were added to the sampling frame: the Chinese Manufacturers' Association of Hong Kong, the Chinese General Chamber of Commerce, and the Hong Kong Small and Medium Business Association. In each case the membership lists were scanned for information on whether or not companies were managing activities in China, in order to include only appropriate firms. Where that information was not available, companies were telephoned to check whether or not they should be included.

On completion of the data collection process, a total of 615 companies had been surveyed, 430 of them in manufacturing and 185 in services. If size is measured as the total number of employees in Hong Kong and China, 24%

of responding companies had less than 100 employees, 14% had 100 to 199 employees, and 36% were medium-sized (200–1,000 employees). Large companies, with over 1,000 employees in Hong Kong and China combined, made up the remaining 26%. Given the lack of census data on firm size by total employment in Hong Kong and China, it is not possible to compare the characteristics of the sample, in that respect, with those of the population. For just the manufacturing sector, it is possible to compare the distribution of sample firms by employment in mainland China alone with figures provided by the Hong Kong Trade Development Council (HKTDC) for its own much larger sample. The sample for the present study had a similar proportion of firms to the HKTDC profile with under 100 employees and also in the middle range, employing between 200 and 1,000 people. However, the present sample had larger proportions of very small (under 50 employees) and large firms (1,000 employees and over) compared to the HKTDC profile.

Method of Data Collection

In preparation of the survey proper, three focus group meetings were conducted at which Hong Kong executives involved in Chinese business were invited to discuss the factors that had affected their operations there and any changes they might make, if they were able to repeat their experiences with the benefit of hindsight. In light of those discussions and the insights provided by previous research, a draft questionnaire was developed in both English and Chinese, and a process of translation and back-translation ensured conceptual equivalence of the alternative renditions (Brislin 1970). The draft questionnaire was then administered to a group of 15 executives. This led to a number of additional minor amendments, and the final version was further piloted with a separate group of five senior managers.

The final questionnaire comprised a dozen pages (English version) intended to capture comprehensive information from the Hong Kong firms' experiences in China, including the constructs on trust development analyzed in this article. This large amount of information could not be collected effectively through a postal survey, and some of it was too sensitive for such an approach. A team of research workers therefore spent seven months from August 1999 to February 2000 telephoning companies to make appointments and then visiting all respondents to administer the questionnaire. The target interviewee in each company was the executive responsible for its business in China, and each interview lasted approximately 90 minutes. The response was generally good in the sense that most firms contacted expressed a willingness to cooperate, but pressure of work and frequency of travel to

China meant that in a substantial number of cases arranging an actual interview proved impossible within the time frame. Out of all the firms contacted, the final sample represents a positive response rate of approximately 22%. Of the 615 respondents interviewed, 560 (91%) were Hong Kong Chinese.

Measures

In line with Hypotheses 1 to 6, the dependent variable for our analysis is the trust of Hong Kong managers in their local China staff. According to the definition of trust by Rousseau et al. (1998) that we have adopted, we would have to measure the psychological state of Hong Kong managers with respect to whether they have positive expectations of the intentions or behavior of local staff and are therefore willing to accept vulnerability towards them. Trust is notoriously hard to operationalize directly and precisely, and we therefore presented a set of nine Likert-type items (Likert 1932) to the Hong Kong managers with everyday statements as proxies for how trusting managers would describe trusted local staff: not being let down, sharing objectives, confidently delegating, seldom conflicting, openness, friendship, good atmosphere. The assumption is that a manager who agrees strongly with such descriptions of local staff has positive expectations of their intentions and behavior and would accept vulnerability towards them. The nine Likert items give a reliable scale for the dependent variable "trust in local mainland staff" with a single dominant factor and a Cronbach alpha of 0.89. The exact wording and operationalization of this and other measures is available from the authors on request.

To test Hypothesis 1, we measured the Hong Kong managers' individual perceptions of the effectiveness of the Chinese legal system for their business using four Likert items (Cronbach alpha 0.86). For Hypothesis 2, we presented three Likert items to the respondents (Cronbach alpha 0.77), assessing how arbitrary they find the behavior of Chinese officials. For H3, the availability of competent human resources, we asked the Hong Kong managers how satisfied they were with the availability of training, managers, and employees in China, i.e., three Likert items (Cronbach alpha 0.81). The three measures for effectiveness of the legal system, arbitrariness of officials, and availability of competent human resources together capture the category of contextual confidence.

For the second set of Hypotheses 4 to 6, which represent the category of active trust development, we measured as independent variables the methods used to establish personal rapport (Hypothesis 4), the extent to which managers are recruited locally (Hypothesis 5), and the success in transferring business practices to China (Hypothesis 6). For the personal rapport variable, three

Likert items were used (Cronbach's alpha 0.81) concerning efforts in getting to know Chinese managers personally, shaping positive attitudes, and careful selection. A single item ranging from "all recruited in mainland China" to "all recruited from Hong Kong/outside mainland China" was presented to find out to what extent the managers for Chinese operations are recruited locally. Regarding the transfer of business practices, Hong Kong managers were asked to indicate their agreement or disagreement with having succeeded in transferring practices in six areas: accounting, marketing, purchasing, operations, HRM, and technical standards (Cronbach's alpha 0.84).

The control variable of the length of time in the environment was assessed by the number of years since the company made its first investment in China. The other control variable, cultural similarity, was operationalized by asking where in China the Hong Kong companies' operations were located, scoring 1 if they had any operations in Guangdong (excluding the new migrant city of Shenzhen) and 0 if only elsewhere. Finally, performance was measured as a second-order dependent variable with a hypothesized positive correlation with the level of trust of Hong Kong managers in their local mainland staff (Hypothesis 7). To assess performance, respondents were asked to provide a rating on a 1–7 basis for three items concerning satisfaction with activities in China. The items making up the scale were based on the discussion in Venkatraman and Ramanujam (1986). The Cronbach alpha for the scale was 0.86, indicating considerable construct reliability. Most companies were also willing to provide information on two more objective measures: the growth of sales and profits in their Chinese operations over the previous two years ($N = 467$ and $N = 512$, respectively).

Results

Table 1 reports the means, standard deviations, and correlation values for trust and its postulated predictors. It should be borne in mind that the trust in question here is that of Hong Kong managers in the staff of their units in mainland China. The table shows that the predictors of trust are relatively independent of each other, with the exception of developing personal rapport and the transfer of practices. The correlations indicate that the independent variables are associated with trust in ways hypothesized, namely Hong Kong managers' perceptions of the effectiveness of the legal system in China (Hypothesis 1), the lack of arbitrary behavior by officials (Hypothesis 2), and the availability of competent human resources (Hypothesis 3), as well as their own efforts to establish personal rapport with local Chinese staff (Hypothesis 4), to

recruit managers from China (Hypothesis 5), and to transfer practices from Hong Kong (Hypothesis 6). The two control variables are not correlated with the level of trust.

Table 2 reports the results of a linear regression analysis in which the independent variables are entered as potential predictors of trust. The highest correlation between any two predictor variables is $r = 0.40$, which means there are no substantial problems of multicollinearity. The combination of independent variables predicts 31% of the variance in trust ($F = 30.12$; $p < 0.001$).

The contextual confidence variables are consistent predictors of trust. When the legal system in China is seen to provide an effective system of support for transactions and when there is a low level of arbitrary behavior by government officials, trust in local personnel tends to be higher. This supports Hypotheses 1 and 2. The availability of competent human resources in China predicts higher levels of trust, thus supporting Hypothesis 3. Taken together as a block, the contextual confidence variables predict as much as 27% of the variance in trust.

Policies for the active development of trust also appear to produce some trust benefits. Efforts to develop personal rapport with local Chinese staff result in higher trust. This supports Hypothesis 4. Recruitment of local managers from China also predicts higher levels of trust, supporting Hypothesis 5. The institutionalization of company practices through transferring them to Chinese units emerges as a further predictor of trust in local personnel, supporting Hypothesis 6. Taken together as a block, the variables of active trust development predict 7% of the variance in trust.

Turning to the two control variables, when taken into account alongside the predictors, the length of time in the Chinese environment does marginally predict higher trust in local staff even though the zero-order correlation was negligible. However, the impact of cultural similarity, as assessed by location in Guangdong Province, is not significant. The two control variables taken together account for under 1% of the variance in trust and therefore do not have much significance within the model as a whole. Further analysis, however, indicates that while the control variables do not add anything to the predictive power of contextual confidence, they each add significantly to the predictive power of active trust development, boosting this by a further 2%. Length of time in China primarily leveraged the effect of personal rapport on trust, while cultural similarity primarily leveraged the positive effect of transfer of practices.

We also suggested that trust in cross-border units lays a good foundation for achieving a better performance from them (Hypothesis 7). The zero-order correlation between trust and this performance measure is highly significant ($r = 0.46$; $p < 0.001$). Trust was also positively

Table 1 Descriptive Statistics and Correlations

Variables	Mean	SD	Trust	H1	H2	H3	H4	H5	H6	Yrs. in China
Trust (dependent variable)	40.78	7.63								
H1 Legal system effectiveness	12.70	3.92	20**							
H2 Arbitrary behavior: officials	14.71	2.72	-15**	-36**						
H3 Competent local HR	12.47	2.86	49**	13**	-08					
H4 Developing personal rapport	15.98	2.86	18**	03	05	10*				
H5 Managers from China	2.95	1.20	11**	08	-07	14**	-06			
H6 Transfer of practices	24.17	8.70	12**	-08	00	09*	40**	-15**		
Years investment in China	10.39	11.92	04	01	03	-01	-07	-05	05	
Location in Guangdong	0.62	0.49	-08	-02	-01	-05	04	-02	12**	11**

* $p < 0.05$; ** $p < 0.01$.

Decimal points are omitted from correlation coefficients.

H1–H6 refer to corresponding hypotheses, respectively.

Table 2 Regression of Institutional Foundations and Active Trust Development on the Level of Trust in China Units

Predictor	Standardized Coefficient (Beta)	Value of <i>t</i>	Significance (<i>p</i>)	Hypotheses
Contextual confidence:				
Legal system effectiveness	0.096	2.475	0.014	H1 ✓
Arbitrary behavior of officials	-0.107	-2.734	0.006	H2 ✓
Availability of competent human resources	0.440	11.829	0.000	H3 ✓
Active trust development:				
Developing personal rapport	0.150	3.903	0.000	H4 ✓
Managers recruited from China	0.079	2.126	0.034	H5 ✓
Transferring practices to China	0.104	2.665	0.008	H6 ✓
Control variables:				
Years of investment in China	0.075	2.048	0.041	✓
Location in Guangdong	-0.051	-1.379	0.168	✗

$R^2 = 0.32$; Adjusted $R^2 = 0.31$; $F = 30.124$; $p < 0.001$; ✓ = support; ✗ = reject.

correlated with the growth of profits and sales from activities in China over the previous two years, though not so highly: with profit growth $r = 0.18$; $p < 0.01$, and with sales growth $r = 0.15$; $p < 0.01$.

Discussion

The first aim of our study has been to empirically test whether the level of confidence that foreign managers and investors have in the Chinese institutional context has an effect on their trust in their staff who are located within that context. Our results provide clear support for a positive relationship. Contextual confidence fosters trust in local staff. This underlines the prominent role of institutions as bases for trust previously identified by Zucker (1986), Lane and Bachmann (1996), and others. The

mechanism at work here appears to be that effective institutions provide norms and rules that local staff will follow. In contrast, the arbitrary behavior of officials would not only manifest the weakness of institutions, but could also encourage some capriciousness and opportunism in the attitudes and behavior of local personnel. Conceptually, this finding is in line with our definition of trust because the confidence in institutions does result in “positive expectations of the intentions or behavior of another” (Rousseau 1998, p. 395). Such institution-based trust may be seen, however, as “fragile trust,” because it relies on extrinsic predictability and deterrence, rather than “resilient trust,” which is intrinsically motivated by goodwill (Ring and Van de Ven 1992; Ring 1997, p. 124). Some may argue that only resilient trust is “proper” trust, but this is a moot point.

The second aim of this study has been to conceptually and empirically explore whether purposive actions by the truster, who is usually modeled in a rather passive role, can have a positive effect on trust. Thus we conceptualized and operationalized the notion of active trust development, and our results demonstrate its efficacy in generating trust. Active trust development is not, however, a simple replacement for contextual confidence. The results show that its effect on trust is not as strong as that of perceived institutional effectiveness. Nevertheless, active trust development is a viable means of enhancing trust within and between organizations. It is likely to be particularly valuable in environments such as contemporary China, where contextual confidence may not be readily available to foreign managers. Active trust development comes within the action possibilities open to managers and is a capability that managers need to foster as they face unfamiliar contexts. The snag, however, is that active trust development involves investment and a considerable leap of faith (Möllering 2001). By contrast, institution-based trust seems less risky to the truster, precisely because it rests on the “given” context that requires no investment or increased vulnerability.

The reported experience of Hong Kong firms in China indicates that efforts to develop personal rapport with local staff, who had also been carefully screened before selection, increased the trust that could be vested in them. The transfer of practices to China-based units also increased trust in local staff. Our questioning regarding the development of personal rapport was originally intended as part of an exploration of control practices, and this finding recalls the interdependence that trust has with control (see the Special Issue of *Organization Studies* 2001). On the one hand, trust offers an opportunity to reduce control, because it may not be necessary to monitor people who are not expected to behave opportunistically. However, the certainty offered by trust is always subjective and risky. On the other hand, a policy of active trust development is a more “controlled” risk than not investing in trust at all and only relying on extrinsic contextual factors, especially when these are not effective, as is often the case with Chinese institutions.

There is a degree of uncertainty concerning active trust development, and in this study its effect was more modest than that arising from contextual confidence. The success of active trust development may also be conditional on factors that are specific to the particular organization. Its impact was, for example, augmented by length of experience in the cross-border environment. This suggests that active trust development policies take time to provide a basis for increasing trust. It was also instructive to note that while cultural similarity appeared to carry no weight

for the trust significance of institutional factors, it did to a small but significant extent offer a more propitious ground for active trust development. These interactive effects deserve further attention in future research.

We also noted a positive effect of trust on the performance of China-based operations. This result has to be qualified insofar as the direction of causality cannot be entirely clear; not only may trust induce better performance, but also, vice versa, good performance may be a foundation for stronger trust (Möllering 2002, p. 151). Lane et al. (2001, p. 1, 152) call this the “what have you done for me lately” effect. As long as things are going well and the business in China is growing, Hong Kong managers have no reason not to trust their local staff. In any event, the strong correlation between trust and performance requires managerial as well as scholarly attention, and our notion of active trust development indicates that “trust-sensitive management” (Sydow 1998) is possible, even if trust as such remains too “elusive” (Gambetta 1988a) to be managed and “controlled” directly.

Our findings hold important implications both for Chinese government policy makers and for managers and investors dealing with China. First, Chinese authorities should feel encouraged to strengthen their efforts in building effective institutions and rooting out corruption because these efforts will increase the trust that investors have in their Chinese colleagues. Secondly, investors and foreign managers are urged to commence or reinforce active trust development initiatives instead of simply pointing at the current inadequacies of Chinese institutions. Our findings give clear evidence that developing personal rapport and transferring business practices increase trust. These signs of goodwill may also lead to more resilient trust in the long run than do extrinsic institutional norms. We have only been able to test a few examples of active trust development measures but are confident that further research can identify many more trust-enhancing practices that highlight the truster’s active role in trust development without denying the importance of given contextual factors.

Conclusion

In conclusion, this study contributes the following understanding of organizational trust with particular reference to China:

- The importance of contextual confidence in institutions for building trust between cross-border managers and local staff has been confirmed empirically.
- Active trust development has been conceptualized and empirically validated as a strategy for cross-border investors and managers to strengthen the basis for trust in local staff.
- While the direction of causality may not be entirely

clear, the positive correlation between trust and performance has been empirically confirmed.

- Time and cultural similarity have only small effects on trust, possibly because they could also lead, respectively, to mistrust and feelings of inequity.

- Government and other bodies that are in a position to create and promote effective institutions should intensify their efforts in that direction.

- Models of trust production need to be extended to include the effect that active trust development has over and above “given” contextual predictors of trust.

These conclusions have to be treated as preliminary for two reasons. First, they are subject to the usual limitations attached to a single empirical study. Second, we have explored new ideas, especially active trust development, whose explanatory value needs to be replicated and confirmed in future studies, and in contexts very different from China. Future research can build on our findings, and we expect that, although China is a special case, the essence of our argument will be found to apply more generally.

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