

Correlating Relational Competence with Trust

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Empirical evidence has consistently shown that trust facilitates coordination, reduces conflicts and enhances longevity within cooperative relationships. Conditions leading to trust have been considered repeatedly in research papers. Whereas the link between reputation and trust, for example, has been extensively researched, the study of relational competence as a determinant of trust has largely been ignored. Although some academic articles naming the impact of competence on trust exist, the study of the mode of action of relational competence in the trust-developing process is underdeveloped. Therefore, the main purpose of this paper is to analyse the relationship between relational competence and trust. For this reason, a laboratory experiment was conducted. In its conclusion, the paper presents the empirically confirmed strong correlation between relational competence and trust within cooperative relationships by taking into account situational and personal factors.

1. Introduction

The forces associated with the establishment, development and maintenance of interorganizational relationships have received considerable attention because of the recognition that it is possible to increase profitability through relational exchange (governed by the norms of long-term relationships, mutual satisfaction, shared trust and open communications) rather than by discrete transactional change, which is short-term oriented and centred on self-interest (see e.g., Ref. 1)). As a result, research activities on the establishment, development and on the maintenance of successful cooperation have grown considerably. Within this domain, a construct that has received particular attention with regard to interorganizational relationships is trust³²⁾.

Empirical evidence in numerous articles and books has consistently shown that trust facilitates coordination (e.g., by replacing formal contracts), reduces

conflicts and enhances longevity within business relationships. As a consequence, trust contributes to a decrease in control and coordination costs (see e.g., Refs. 17), 32), 33)). In view of the profits the construct of trust yields, companies should pay particular attention to the factors that lead to the evolution of trust. A profound knowledge of the determinants in the trust-developing process allows companies to exert influence specifically on the establishment, development and maintenance of cooperative relationships.

Conditions that lead to trust have been considered repeatedly in research papers. Not only the reputation of a company and its perceived history, but also the self-assurance and the risk-taking behaviour of the trustor can be seen as trust determinants^{23),34)}. Further conditions that lead to trust are availability, consistency, ability, discreetness, fairness, integrity, loyalty, openness, promise fulfilment and receptivity⁴⁾. Another empirical study has shown that perceived ability, willingness, sincerity, integrity, tactfulness and confidentiality are positively related to trust²⁸⁾. Whereas the link between reputation and trust, for example, has been extensively researched within business relationships, the study of relational competence as a determinant of trust has largely been ignored.

Although some literature naming competence as a determinant of trust exists^{21),24),39)}, the theoretical and empirical study of the mode of action of relational competence in the trust-developing process is scant and underdeveloped. This study will therefore analyse the relationship between relational competence and trust by consolidating the literature and experimentally testing the derived hypotheses in a laboratory.

2. Trust and Relational Competence

Interorganizational cooperation makes great demands on companies. Due to the time gap between performance and counter-performance of the cooperation partners, the particular problem of cooperative arrangements consists in the reduced applicability of control and sanction mechanisms in order to ensure specific actions by the cooperation partner, even though these actions strongly influence the cooperation success and the cooperator has made advance performances with regard to the expected actions³³⁾. Therefore, the core problem of cooperative arrangements is the risk of being overreached by the cooperation partner. This

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is the case if the cooperation partner forgoes common long-term objectives in favour of opportunism and short-term advantages⁴⁶⁾.

Due to the latitude of opportunism of the cooperation partner, defined as the option of behaving unfairly towards the cooperator without being detected, and not exhibiting the expected behaviour^{30),31),43),45)}, the cooperator is confronted with risks (adverse selection, hold up, moral hazard). On the one hand, the cooperator can reduce the cooperation partner's latitude of opportunistic behaviour, and therefore the uncertainties, and accept the agency costs (e.g., bargaining and control costs, costs for the initiation of sanction potential) which are connected with the implemented control and sanction mechanisms. On the other hand, the cooperator can reduce the cooperation partner's inclination to behave opportunistically and accept the uncertainties concerning the partner's behaviour and the correlating risk costs (as the latitude of opportunistic behaviour still exists)³⁴⁾. This decision to accept behavioural uncertainties can only be made against the background of a sustainable trust-based relationship, as trust can absorb the cooperation-immanent behavioural risks^{23),32)}. Cooperation can only function on the basis of trust and must do so if other coordination mechanisms are not available at all, or if they are relatively, as to the reduced risks, costly^{1),33)}.

With reference to sociological perspectives (see Refs. 6), 23)) and principal-agent theoretical considerations, trust is defined as follows:

Trust is the anticipation/assumption that the cooperation partner will – in spite of the absence of protection measures – behave in a cooperative manner allowing for a risky advance performance under waiving of stipulated protection and control mechanisms to restrict the latitude of opportunistic behaviour.

As trust forms an abstract entity, modelling the relationship between trust and relational competence requires the identification of empirically observable equivalents for trust. The expectation concerning the cooperation partner's behaviour, which forms the basis of the trust act, cannot be measured directly within the experimental setting. Therefore, by analysing approaches for measuring trust acts, we have derived the following indicators:

- open information^{9),15),42),47)}: The cooperator renders a risky advance performance by disclosing information openly with the cooperation partner.

- honest information^{8),9),15),47)}: The cooperator renders a risky advance performance by disclosing information honestly with the cooperation partner.
- reduced control intensity^{9),15),25),47)}: The cooperator refrains from controlling the information the cooperation partner has disclosed.

Since interorganizational relationships are managed by individuals who act on behalf of their organizations, in this paper the issue of trust is tackled at the individual level (see e.g., Refs. 3), 5), 8), 13)).

In order to explain the construct of trust in the form of a theoretical model integrating relational competence as a variable that influences the decision calculus of the cooperator in his role as a trustor, a differentiation between subjective expectations and objectively observable behaviour is necessary:

A decision to place trust in the cooperation partner exists if the cooperator places an act of trust (risky advance performance) and this placement was motivated by a positive trust expectation. Referring to the trust act, we can summarize that it becomes manifest in the risky advance performance and in refraining from the implementation of control and sanction mechanisms to reduce the cooperation partner's latitude of opportunism: The trustor gives resources to the trustee (e.g., open and honest information), which the latter can use for causing gains or losses for the cooperator. By making himself vulnerable through these specific investments, the trustor's trust act constitutes a unilateral dependency on the trustee's behaviour^{23),36)}. The trustee's possibility of causing losses on the part of the trustor and therefore the trust risk are rooted in the electoral freedom of the trustee between honouring and betraying the trust decision⁶⁾.

The decision of the trustor to take the hold-up risk without protection is – among other factors – based on the expectation that the trustee will voluntarily refrain from behaving opportunistically, and thus that he will not misappropriate the trustor's specific investments^{26),32)}. Referring to this trust expectation the cooperator has to decide whether the potential trustee is trustworthy; yet this characteristic is to a large extent concealed before entering into a trust-based relationship. The trust expectation therefore rests on the accredited intensity and stability of the trustee's motivation. In the course of assessing the trustee's behavioural intention, the trustor is confronted with subjective uncertainty concerning the latter's real preferences and also with objective uncertainty concern-

ing the effects of exogenous factors and the behavioural restrictions. Therefore, in the course of developing his trust expectation, the trustor will strive to reduce his subjective uncertainty with the help of additional information³²⁾. As information gaps cannot be completely closed, trust requires the extrapolation of existent information from the past into the future²³⁾.

In the context of reducing subjective uncertainties, the relevance of relational competence becomes apparent: Control and sanction mechanisms can only be waived if the trustor gets information from which he can infer it to be more likely that the trustee will act according to the trust expectation⁴⁴⁾. As the subjective perception of the trustee's trustworthiness is mainly influenced by his personal characteristics, we hypothesize that the perceived competence of the trustee constitutes such information for reducing the trustor's subjective uncertainty regarding the behaviour of the trustee²⁹⁾. Relational competence refers to the ability of a party to initiate and maintain exchange relationships¹¹⁾. The extent to which a party is relationally competent becomes manifest in observable components, which are induced by unobservable elements. The group of observable components includes e.g., the ability to communicate, the ability to cooperate and coordinate, the ability to show a consistent pattern of behaviour and the ability to work in a team¹⁰⁾. The constructs empathy (ability to understand another's situations, motives and feelings, e.g., understanding the effects of inconsistent/consistent patterns of behaviour), tolerance for ambiguity (ability to give an interaction partner the chance to develop his identity), and self-disclosure (ability to reveal information about oneself which the interaction partner would normally not know or discover) add to the more or less unobservable components^{2),16)}. As relational competence forms an abstract entity, modelling the relationship between trust and relational competence requires the identification of empirically observable equivalents for relational competence. Therefore, by analysing approaches for measuring relational competence we have derived the following indicators:

- empathy and solidarity^{12),14),18),19)}: The cooperation partner is characterized by empathy and solidarity so that he can notice, evaluate and consider the needs, reactions and behavioural pattern of his partner.
- self-disclosure^{12),14),20),41)}: The cooperation partner can initiate the relation-

ship with his partner due to his ability to communicate personal information which the partner would normally not discover.

- persuasive power^{14),18),20),41)}: The cooperation partner is able to depict e.g., the goals of the relationship convincingly so that they are based on mutual agreement.
- information disclosure^{12),14),20),41)}: The cooperation partner shares information, as well as his expertise, with his partner within the cooperation.
- social-mindedness^{12),14),18),20)}: He has a benevolent orientation towards his partner and does not expect a counter-performance for every performance.
- ability to communicate^{12),14),41)}: The cooperation partner has the ability to plan the communication systematically, as well as the verbal skills to shape the communication with his partner.
- ability to cooperate^{12),14),20),41)}: The cooperation partner has the ability to interact with his partner, as he refuses to behave unfairly without being detected, and as he intends to support his partner.
- ability to handle conflicts^{12),14),20),41)}: The cooperation partner is able to uncover conflicts and solve them in a consensus-oriented manner.

We assume that, as additional information, relational competence relates positively – via the dimension ‘trust expectation’ – to the placement of a trust act: Basically, the fulfillment of the trust expectation depends on two factors: the ability and the willingness of the trustee. However, due to information asymmetries the cooperator is on the one hand unsure whether the cooperation partner is able to behave according to the cooperator's expectations. If the cooperator perceives the cooperation partner as being able to fulfill the trust expectation because of e.g., the latter's technical competence, the cooperator's uncertainty concerning the ability of the cooperation partner is reduced. To put it another way: The cooperator is confident that the cooperation partner is able to fulfill his expectation. Whilst confidence relates to uncertainty concerning the cooperation partner's ability, trust is a measure for absorbing uncertainty concerning the cooperation partner's willingness^{22),32)}. Due to the aforementioned problem of information asymmetries, the trustor is on the other hand unsure about the trustee's willingness to behave according to the trustor's expectation. The trustee's relational competence can now reduce the trustor's subjective uncer-

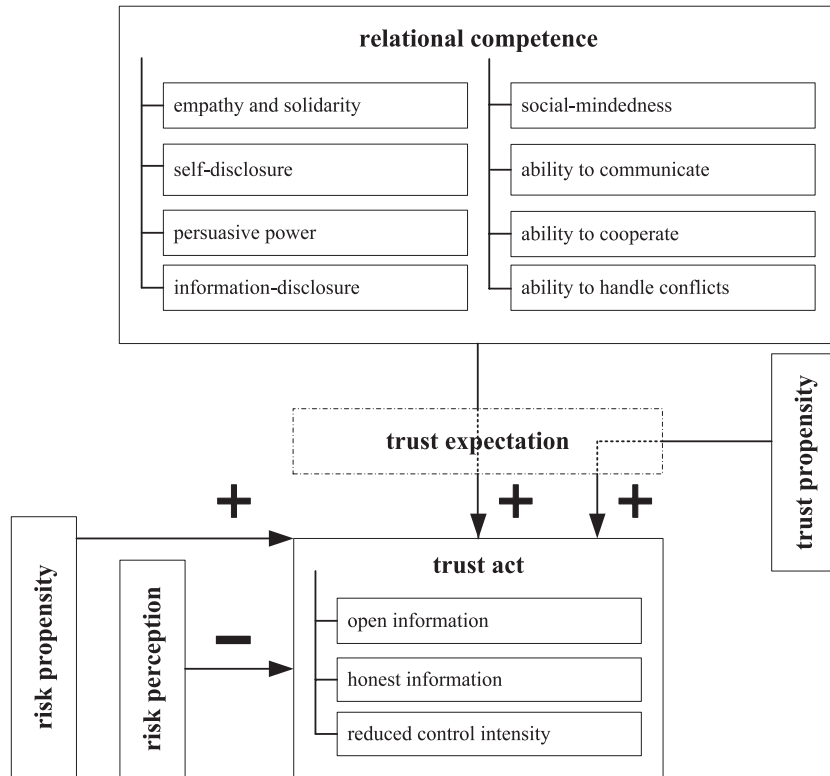


Fig. 1 Relational competence’s impact on trust.

tainty concerning the willingness of the trustee^{27),37),38)}. Based on his relational competence the trustee behaves in a trustworthy manner, e.g., he shows empathy and a consistent pattern of behaviour. Due to this behaviour the trustor expects the trustee to refrain from behaving opportunistically also in the future. Therefore, as shown in Fig. 1, we assume that there is a positive relationship between relational competence – via the dimension ‘trust expectation’ – and the placement of a trust act.

Apart from the perceived relational competence as a personal characteristic of the trustee, we assume that certain characteristic traits of the trustor and also

situational factors are related to the trust the trustor has for the trustee. We hypothesize that there is a positive relationship between the propensity to trust as a personality trait and the likelihood the trustor will place a trust act, due to the development of a positive trust expectation: The propensity to trust might be understood as the generalized willingness to trust others. As the trustor is confronted with limited information in the course of assessing the potential trustee’s trustworthiness in a specific situation, he will develop generalized expectations based on past interactions with others³⁵⁾. Such generalized expectations, i.e., the propensity to trust, can then influence – as additional information – the trust expectation in a specific situation^{9),24)}. As the degree of the propensity to trust reflects the success of the strategy ‘trust’ in the past, the expectation that the trustee will voluntarily refrain from behaving opportunistically will be the higher the more reliably others behaved towards him in similar situations in the past (as shown in Fig. 1). As risk is inherent in trusting others, we hypothesize that the risk propensity relates positively to the likelihood of the trustor placing a trust act (as shown in Fig. 1). Moreover, we hypothesize that the situational risk perception is negatively related to the likelihood of the trustor placing a trust act, because trusting in such situations goes along with higher risks (as shown in Fig. 1). The risk perception involves the trustor’s beliefs about situation-specific likelihoods of gains and losses, neglecting the influence of the particular trustee (see e.g., Refs. 6), 24)). To sum up, we assume that not only the trustee’s relational competence, but also the trust and risk propensity as personality traits of the trustor, and the situational risk perception, relate to the trust formation process.

3. Research Method

A laboratory experiment was conducted in order to analyse the effect of relational competence on the placement of a trust act. Eighty subjects, undergraduate business students (23 male, 57 female) from the WU Vienna University of Economics and Business, participated in this experiment yielding 80 useable data. Their mean age was 23 years (*standard deviation* = 3.1).

Before assigning the subjects randomly to a control and experimental group, we measured the participants’ levels of trust and risk propensity. The validity

and reliability of the trust propensity scale of Costa⁷⁾, which is based on Wrightman's RPHNS, has been demonstrated in previous research (e.g., Ref. 42)). It consists of seven items with a five-point Likert scale ranging from strongly agree to strongly disagree. The widely used and reliable scale of Sitkin and Weingart⁴⁰⁾ for measuring risk propensity consists of five items with a 5-point Likert scale ranging from strongly agree to strongly disagree. Following the experiment, we measured the participants' situational risk perception by means of Sitkin and Weingart's perception scale⁴⁰⁾, which consists of four items with a 5-point Likert scale ranging from strongly agree to strongly disagree. Cronbach's alpha values were calculated in order to assess the internal consistency of items in the scales. The used measures have been shown to have good internal consistency, with Cronbach's alpha values for the trust propensity scale of 0.91 and both for the risk propensity scale and the situational risk perception scale of 0.77.

Concerning the experiment, the participants were presented with a written scenario, describing a situation in which they were white wine producers who think about bringing a gift box to market that would consist of one bottle of white wine and one bottle of red wine. In order to realize this idea they could take a cooperative relationship with a red wine producer into consideration. They also received the information that a Viennese wine dealer would be interested in exclusively selling the gift box, either consisting of one bottle of red wine and one bottle of white wine, or of two bottles of white wine or two bottles of red wine – depending on the potential of the producers and the quality of their products. Specifically, the wine dealer offered to buy 10,000 bottles in advance – whether the white wine producer shares the amount with the red wine producer (both can sell 5,000 bottles) or whether the white wine producer receives the full amount (10,000 bottles; red wine producer: 0 bottles) or whether the red wine producer is awarded the full amount (10,000 bottles; white wine producer: 0 bottles) would depend on the results of a negotiation between the three players that should take place after the preparatory stage (the announcement of the negotiation worked as a stimulus in order to diminish Axelrod's 'shadow of the future').

The participants' task was to prepare themselves for the negotiation by studying the given information as to their vineyard and the vineyard of the fictitious red wine producer. In this regard, the participants were confronted with uncer-

tainty concerning the red wine producer as they received only a small amount of information about the latter's vineyard (e.g., size, price per bottle). In order to be better prepared for the negotiation they could share information about their own vineyard with the red wine producer, i.e. they had the possibility of transferring correct or wrong information to their potential cooperation partner. Moreover, they could control the information the red wine producer gave them. So, after having studied the scenario, the participants had to make three decisions concerning 1) the amount of information (open information) and 2) the quality of information (honest information) shared with the red wine producer, and 3) the intensity of information control.

The control group and the experimental group were presented with the same written scenario apart from the red wine producer's description: In the experimental group the red wine producer was described as a relationally competent person (using the derived indicators), whereas the control group was confronted with a red wine producer who was of average relational competence. In sum, the experiment, including the questionnaire as to the personal characteristics and perceptions, lasted approximately one hour per participant.

The intensity of the 'trust act' was measured by summing up the amount of open information (16 data could be shared at most), the amount of honest information (i.e., the share of correct information in open information; a maximum of 16 data could be transferred honestly) and the intensity of control (a maximum of 4 inspection reports could be asked for). We weighted these variables in order to equalize their contribution to the variable 'trust act'. The variable 'relational competence' was treated as a dummy variable in the analysis.

4. Results

Data analysis involved several steps. In the first step, internal consistency measures were calculated. As mentioned in chapter 3, the internal consistency measures of all multi-item scales (Cronbach's alpha) meet the statistical threshold in empirical research.

In the second step, data was graphed leading to the assumptions that the variables 'trust act', 'relational competence', 'trust propensity', 'risk propensity' and 'situational risk perception' are normally distributed and that linear relationships

exist between them. Moreover, variance inflation factors (VIF) were calculated in order to test independence requirements. The highest observed VIF equals 1.096, which is far below the critical value of ten indicating that multicollinearity does not appear to be a problem for the quality of the analysis of the modeled relationships.

In the third step, t-values were calculated in order to assess whether the means of the control and the experimental group as to trust propensity, risk propensity and situational risk perception are statistically different from each other. The probability levels (*p*) reported with the t-tests represent the probability of error involved in accepting the alternative hypothesis about the existence of a difference. Technically speaking, the computed probability of error associated with rejecting the null hypothesis of no difference between the two groups in the population when, in fact, the null hypothesis is true, is 0.52 concerning trust propensity, 0.98 as to risk propensity and 0.39 concerning situational risk perception. As these computed values exceed the threshold *p*-value of 0.05, the alternative hypotheses have to be rejected in favour of the null hypotheses suggesting that there is no significant difference between the control and the experimental group as to trust propensity, risk propensity and situational risk perception.

In the fourth step, Pearson's Correlation Coefficients (*r*) were calculated in order to test the hypotheses as to whether and how strong pairs of variables are related. Basically, the closer *r* is to +1, the more closely the two variables are related. As hypothesized, we found that relational competence and the placement of a trust act are closely related (*r* = 0.71). The positive *r* indicates that the more relationally competent the trustee, the stronger the trust the trustor has for the trustee. The relationship is extremely significant at a 0.1% probability level (*p* < 0.001), which means that there is a 0.1% chance that the result was accidental. Moreover, trust propensity correlates positively with the placement of a trust act (*r* = 0.13, *p* < 0.05) implying that the stronger the trustor's trust propensity, the greater the probability the trustor will place a trust act. Furthermore, risk propensity is positively related to the placement of a trust act (*r* = 0.18, *p* < 0.01), meaning that as the trustor's risk propensity increases, so does the probability that the trustor will place a trust act. Subsequent analysis revealed that risk propensity and situational risk perception are negatively

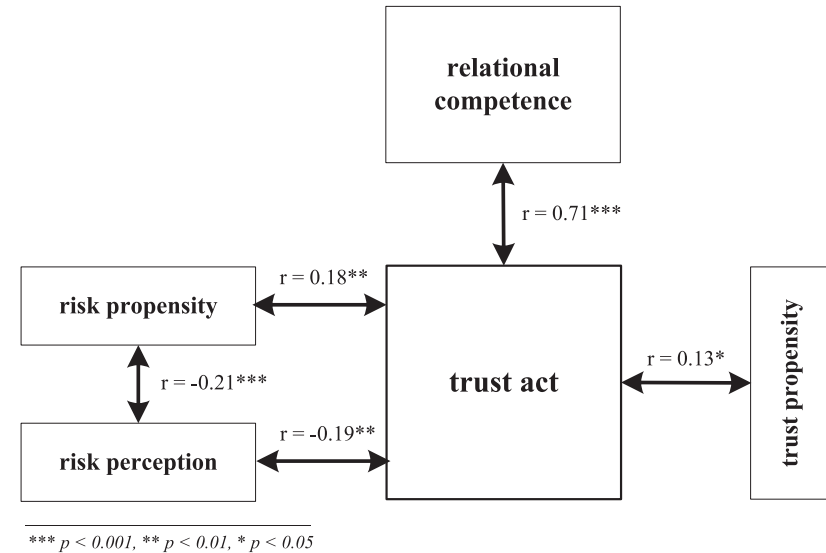


Fig. 2 Correlating relational competence with trust.

correlated (*r* = -0.21, *p* < 0.001). Therefore, among trustors, those who have a strong risk propensity tend to perceive a situation as being less risky. Furthermore, results indicate that situational risk perception relates negatively to the placement of a trust act (*r* = -0.19, *p* < 0.01), implying that the riskier the trustor perceives the situation, the lower the probability that the trustor will place a trust act (as shown in Fig. 2).

Summing up, as shown in Fig. 2, the hypothesis concerning the strong positive relationship between relational competence and trust can be corroborated. Correlation analysis also revealed that the hypotheses as to the relationship between trust propensity, risk propensity, and situational risk perception on the one hand and trust on the other hand can be accepted.

5. Conclusions

The primary role of our research was to determine which role, if any, relational competence plays in the trust-developing process. Therefore, we have defined

indicators of the perception of the trustee's relational competence that are consistent with the definitions provided. Behaviours that are characterized by vulnerability and the lack of control and sanction mechanisms have been assessed to operationalize the dimension of the trust act. Trust was measured in terms of actual behaviour, e.g., refraining from monitoring, not in terms of willingness to trust - otherwise the trust propensity would have been measured. The trusting behaviour subject to relational competence was measured within an experimental setting. Results showed that the constructs relational competence and trust are strongly correlated and that this relationship is extremely significant. The extent of trust propensity and risk propensity and also the situational risk perception were assessed directly (through survey items). Results showed that these personality factors and perceptions correlate with the placement of a trust act. Therefore, the proposed hypotheses can be confirmed.

There are several limitations to the study: First, its theoretical focus and thus also the empirical testing is limited to trust of a specific trustor for a specific trustee. Therefore, its contribution to understand trust in a social system is beyond the scope of this model (e.g., trusting the bank system). Second, trust is modelled and tested unidirectionally: from a given trustor to a given trustee. But this limitation can be resolved by attaching the mirrored model and by adapting the experimental design (e.g., usage of online strategic/operational games in which participants play against/with each other) in order to explain the dynamic process of mutual trust formation. Third, the mode of action of relational competence could not be observed the way it has been modeled (via the dimension 'trust expectation', as shown in Fig.1). To resolve this limitation, a methodology that taps into the trustor's expectation that the trustee is trustworthy is needed, because this is distinct from observable trusting behaviour. Fourth, the explanatory power of the method of data analysis is limited to the existence and strength of relationships between variables. Therefore, the next step is to resolve this limitation by employing a regression analysis in order to disambiguate the effect of relational competence on trust, which requires a preceding increase in the number of participants in the experiment. Besides this objective, a further aim is to determine which role, if any, technical competence plays in the confidence-developing-process and in the process of generating trust. Therefore, we will

define indicators of the perceptions of the trustee's technical competence that are consistent with the definitions provided. Moreover, we intend to develop and conduct experiments to measure the hypothesized relationship between technical competence, confidence and trust. Finally, if possible, multiple regression will be conducted in order to test whether there is a difference between the impact of relational competence and technical competence on trust and if there is, then how strong this is.

Summing up, there are many areas in interorganizational studies in which trust has played a key role. Therefore it is of high relevance to identify the determinants of trust formation. We tried to meet the requirements stated by Mayer, et al.²⁴⁾, where the process through which trust develops should be further explored by identifying and analysing the key role of relational competence in the trust formation process within cooperation. To conclude, the cooperation partner's relational competence is positively related to the trust the cooperator has for the cooperation partner. As trust facilitates coordination, reduces conflicts and enhances longevity within business relationships, particular attention should be paid to methods (e.g., workshops, coaching, training sessions) that strengthen the relational competence of boundary role persons, i.e., the employees or entrepreneurs that are responsible for the success of interorganizational relationships.

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