Trust among Executives

Emily W. Choi  Özalp Özer  Yanchong Zheng

Trust is recognized as a key mechanism underlying behavior in social and economic exchanges. Sociologists understand trust to be essential for stable relationships, and economists view trust as the most efficient mechanism for conducting transactions. Nobel Laureate Kenneth Arrow states, “virtually every commercial transaction has within itself an element of trust.” In the academic world, researchers have empirically shown that countries and regions with higher levels of trust experience less friction in economic exchanges and hence, more prosperous growth. In the business world, managers and executives are not oblivious to the role of trust as a critical lubricant in successful business relationships. As the study of supply chains is primarily concerned with interactions between business partners, it is essential that operations management (OM) scholars examine and seek to better understand the impact of trust on effective supply chain collaboration.

In this paper, we study whether and how high-ranking executives are affected by trust and trustworthiness in business transactions. Studies of trust in supply chain collaboration have indeed shown that trust and trustworthiness play important roles in supply chain efficiency. These studies predominantly take an experimental approach. Two questions often arise regarding this approach. First, is trust actually being observed in these experiments? Some researchers have questioned the behavioral measure of trust and its correlation with individual attitudes of trust. Therefore, there is a need to better understand whether the behaviors we observe and infer to be trust in experiments are actually related to trust attitudes. The second question is, do behaviors observed experimentally hold external validity in terms of subject population? Typically, the subject pool in these experiments consists of college students. For research that focuses on how managers behave, such as many studies in supply chain research, one may question how well college students represent the target population. Conventional wisdom suggests that because managers, especially high-ranking ones, are exposed to large stakes and risks all the time, they tend to be particularly driven by financial objectives. Therefore, understanding whether and when managers exhibit trust behaviors similar to or different from college students has important methodological and practical implications.

To address these challenges, we leverage a unique sample composed of 113 high-ranking business executives enrolled in a 20-month executive MBA (EMBA) program at a university in the Northeastern United States. These executives hold positions of general manager or higher; over half have the title of
chief officer, director, vice president, or president. On average, they have 17 years of work experience. The organizations they lead span government agencies, non-profits, and private-sector industries. The majority of these organizations are global leaders in their respective sectors. For example, among the private-sector organizations, 24 are Fortune 500 or S&P 500 companies or both and have an annual revenue of U.S. $1 billion or higher (average: U.S. $54 billion). In their everyday work, these executives must consider financial objectives such as profitability and increasing shareholder value. Since these executives are accustomed to operating with this mindset, they will likely be financially driven while participating in our experiment. By verifying the roles of trust and trustworthiness among a population so highly conscious of financial goals, one can provide strong external confirmation of the extent to which these non-financial, behavioral factors influence the outcomes of business interactions.

We employ a multi-method research design that allows us to quantify the executives’ trust attitudes (i.e., the executives’ perceptions of trustworthiness of others) and trust behaviors (i.e., the executives’ trust-demonstrating actions) and to reliably capture the correlation between the two. In particular, we design a social network survey to quantify two targeted measures of trust attitudes. Network trust refers to trust attitudes toward potential partners in current exchanges, while preconditioned trust refers to trust attitudes toward outside business partners in prior experiences. To quantify trust behaviors, we observe the executives making decisions in a forecast information sharing experiment that simulates a fundamental and actively studied research topic in supply chain management.

Our key results and contributions are twofold. First, we demonstrate, with a unique sample of high-ranking executives, that trust and trustworthiness do play important roles in supply chain information sharing. Despite the broad range of existing experimental and behavioral research, there have yet been few attempts to study business decision making with participants from the professional population, let alone target a sample with members of such high ranks and diverse backgrounds as the ones in this study. In addition, there is mixed evidence regarding the degree to which social preferences observed in laboratory experiments can be replicated in the field. We contribute by showing that (i) high-ranking executives are indeed significantly motivated by trust, despite their daily focus on financial goals throughout their extensive business experiences; and (ii) these executives are more cognizant of when to rely on trust (or not) than non-experienced individuals (e.g., college students). These results both confirm the validity of using college students as an initial proxy for studying manager behavior and highlight environments for which testing the external validity of laboratory results on trust would be most valuable.
Second, to determine how trust attitudes and the supply chain environment jointly influence executives’ trust behaviors when making business decisions, our study incorporates both a social network perspective and an experimental approach. As such, our research facilitates further integration and advancement of our knowledge of trust by demonstrating a path through which trust measures from attitudinal surveys and those from economic experiments can be reconciled. We show that when relevant targets of trust are specified in both surveys designed to elicit trust attitudes and experiments designed to observe trust behaviors, these targeted measures of trust attitudes do significantly correlate with trust behaviors. We further demonstrate that different targeted measures of trust attitudes affect trust behaviors in distinctive ways. For example, we show that preconditioned trust is a prerequisite for network trust. That is, network trust matters only for those executives who have high preconditioned trust to begin with. These executives consciously base their trust behaviors on the perceived trustworthiness of their current exchange partners (i.e., network trust), and they do not require (or rely on) repeated interactions to decide how much to trust. By contrast, executives with low preconditioned trust rely on repeated interactions, instead of network trust, to exert trustful behaviors.

Our results offer actionable insights regarding how organizations can better leverage executives’ knowledge about when to trust to improve efficiency in business transactions. For example, organizations could benefit by more strategically assigning responsibilities (e.g., developing new business partners) to managers with high preconditioned trust, as these managers are mindful of the value of trust and will consciously account for the perceived trustworthiness of the partner when deciding how much to trust. In addition, such managers are more likely to initiate relationships based on trust rather than relying on long-term, committed relationships to cultivate trustworthy behavior among their partners; thus more open, new business opportunities can arise. Note that even trusting executives do not trust blindly. They are better than non-experienced individuals (e.g., college students) at recognizing the risks and vulnerabilities in an environment that could make it riskier to trust. This skill benefits organizations in two ways. First, if the organizations could better understand the environmental and institutional factors that result in lower trust, they could make efforts to alleviate or even eliminate these factors. Second, organizations could also more effectively distinguish situations when relying on trust alone would be sufficient from situations when establishing formal contracts or committed relations would be necessary. Consequently, supply chains could largely reduce unnecessary transaction costs by eliminating activities that only serve to monitor and curtail opportunistic behaviors but add no value.