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When We Trust Too Much

Martin Mathews, University of Westminster
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on the Implications of Learning to Trust in Highly Socialised Environments
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Abstract

This paper examines questions concerning the creation of trust in mature industrial district in south-east France; notably the quality of intra-district exchanges when compared with extra-district exchanges. The consequences of trusting habits learnt and reinforced in a highly socialised environment are highlighted. Finally, a suspension mechanism, that of identity and role, that SME managers employ in order to reduce uncertainty will be discussed. Results demonstrate that managers have solid foundations on which they may base their local trust decisions. However, they frequently transfer their trusting attitudes to external partners in the absence of such solid foundations. The consequences of this overly generous trusting attitude will be examined using numerous examples gathered from qualitative fieldwork. Faced with the necessity of trusting outside clients in the absence of solid trust foundations, SME managers employ different stratagems. Firstly, they look to develop strong inter-personal relationships which mirror their relationships with local actors. These inter-personal links are at odds with the (larger) client firms’ organisational trust. In order to continue trusting extra-district clients they employ suspension mechanisms such as role in order to bridge the gap between interpretation of their world and the desired expectation (Möllering, 2001). The originality of this paper lies in its detailed, context rich, study of trusting behaviour. It contributes to the social learning theory of trust and underlines the importance inter-personal trust and psychological contracts in inter-organisational exchanges. More importantly however, this research reveals a major mechanism that reduces agents uncertainty and permits them to behave ‘as-if’ uncertainty was resolved.

Keywords: trust, industrial districts, SME
I. Introduction

This paper addresses three central elements of trust in inter-organisational relationships. Firstly we shall examine the origins of trust in a mature and dynamic industrial district in south east France. Then we shall investigate the way agents transfer their trusting habits from one context to another and particularly from one level, the inter-personal level, to the inter-organizational level. Agents, whose trust in the case of inter-personal, intra-district relationships, is based on solid trust antecedents (reason, routine and reflexivity; Möllering, 2006), lack these bases when confronted with trust decisions concerning outside partners. Habits and routines formed in a highly socialised environment mean that district actors tend to trust outside client firms blindly, or at least too generously, with serious consequences for their firms. But because the antecedents of trust should not be confused with trust itself, it is necessary to attempt to understand how agents make the leap of faith, or suspension that is central to trust. One mechanism managers in the Arve Valley industrial district used was to interpret and accept their subservient role in exchanges with exterior partners. By accepting their role as subcontractors, they accepted the vulnerability and uncertainty that is inherent in any economic exchange.

The paper is structured as follows. We shall examine how SME managers construct trust in an industrial district in south-east France using Möllering’s (2006) wheel of trust model (see below). We shall then demonstrate how these foundations for trust construction lead to high levels of (essentially inter-personal) trust in intra-district exchange relationships in conformity with industrial district literature and theory. However, neither industrial district literature nor trust literature informs us on the implications of this ‘training ground’ when it comes to trusting in different contexts and across levels; in our example, trusting larger firms based outside the district. In trust terms this means examining the question of a) socialization processes which induce actors to trust others and b) how these mental modes make it difficult to change perspective when actors are obliged to move from micro (inter-personal) to meso (inter-organizational) trust levels. Finally we shall examine how SME managers suspend uncertainty and act ‘as-if’ future states were not only likely, but certain and normal.

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1 Space limitations make it impossible to describe the (minor) differences in the literature concerning industrial districts and (industrial) clusters (see Martin and Sunley, 2003, Motoyama, 2006)
Ia. The Primacy of Inter-personal Trust.

Trust functions on micro, meso and macro levels (Humphrey and Schmitz, 1998, Möllering, 2006). Whereas trust originates in individuals, the object of trust can be another individual (micro-level). At the meso or intermediate level, the object of trust can be a group such as a family, a sports club, an organisation or even local communities or professions (‘dentistry’, ‘lawyers’ for example). At a macro level the object of trust would be a distant and relatively abstract entity such as the law, the financial system or even international or global systems etc. (Zaheer, McEvily and Perrone, 1998, Möllering, 2006). It is clear that whatever level of trust we study, the boundaries between these levels are not clear-cut and there may be interactions between the different levels.

![Diagram of three levels of trust](image)

Figure 1. Three levels of trust (after Zaheer et al., 1998, Murphy, 2006)

Debate exists about whether organisations can trust through rules and procedures etc., such as the routines instituted by Japanese auto firms for dealing with suppliers (Dyer and Chu, 2000, 2003), or where, for example, banks provide rules for lending which are applied independently of loan officer rotation (Hagen and Choe, 1998). Currall and Inkpen’s 2002 paper for example, examines trust at interpersonal, inter-group and inter-organisational levels, maintaining too, that organisations and groups can trust. Koening, (1994), proposes a solution to this problem by suggesting that inter-organisational trust is made up of the combined threads of interpersonal expectations.

McEvily and Zaheer, (2005) warn against mistaking the level of analysis in trust studies and of the danger of inappropriately anthromorphizing groups and organisations. ‘We need to be
able to identify trustors and trustees in order to be able to speak of trust’ (Möllering, 2006: 7). Confusion about which level of trust we are analysing can lead to failure to identify who is actually doing the trusting which in turn limits the clarity of the analysis.

In this paper we shall adopt the position of Simon, (2007), Lorenz (2001) and Quéré, (2005), maintaining that the most relevant level of trust is the micro interpersonal level. Trust is centred in the individual’s willingness to make a leap of faith when dealing with uncertainty and vulnerability. Trustors want to know trustees. The decision to trust is based on many dimensions and sources as we shall see in detail below, but the object of trust is first and foremost another person. Lorenz (2001), in his study of machine manufacturer around Lyon, France, saw that managers needed to know personally the exchange partner before trusting. Ring and Van de Ven (1994) noted that the anchoring of trust in interpersonal bonds created through ongoing interactions framed by formal legal contracts, (between organisations) gave way to psychological contracts (between actors) and role interactions were replaced by personal interactions.

Is the trust that one may have towards an individual the same as the trust that one may feel towards an organisation or system such as the justice system of a country? Quéré (2005), maintains that these are two very different types of trust and that one cannot apply the mechanisms of interpersonal trust to an institution. Trust in an institution is ‘a quasi trust founded not on an inductive generalisation, but on the knowledge of a normative idea’ (Quéré, 2005: 199). For Quéré, trust is uniquely operative at an interpersonal level.

Whatever the interplay between the different levels of trust, the micro level of trust is never completely irrelevant whatever the level of analysis. In our study of trust in industrial districts we shall concentrate on the interpersonal trust level between owner-managers of small firms and different exchange partners.

The decision to trust, in an interpretive approach (Sydow, 1998, Murphy, 2006, Ring and Van de Ven, 1994), is grounded in what the actor considers to be ‘normal’ or ‘usual’ behaviour (Lorenz, 2001, Möllering, 2001, 2006). ‘Ultimately, the decision to trust must occur at the micro-scale where agents evaluate and consider the risks, benefits, performances, and institutions influencing a particular exchange relationship or social interaction’ (Murphy, 2006: 440).
Ib. Trust as Reason, Routine or Reflexivity

Möllering, (2006, figure 2 below), building on the categorisation first proposed by Lane (1998), regroups different themes of trust research and proposes an analytical lens which captures the multidimensionality of trust and provides a useful tool with which we can begin to examine the different facets of trust in industrial districts.

![Möllering's Trust Wheel](image)

Figure 2. Möllering’s (2006: 110) Trust Wheel.

Decisions to trust are based on a mixture of three antecedents, reason, routine and reflexivity, which provide us with good reasons to trust but which taken alone, or even combined, can never completely reduce social uncertainty. The rational choice view of trust (reason) describes trust as essentially a function of perceived trustworthiness (Mayer, Davis and Schoorman, 1995). Agents will look for signs and information which will help calculate the probability that their trust will be honoured (Coleman, 1990). While people undoubtedly do evaluate the probability of betrayal, the approach falls down in three important ways. Firstly, how much un-ambivalent information is available to each agent? People who desire to be trusted may send out signals that will be interpreted as signs of trustworthiness. But how can agents trust these signals? Secondly, how can a rationally bounded agent calculate all possible future payoffs from an existing exchange situation? ‘The future is rarely pre-ordained’
(Bradach and Eccles, 1989: 108). Are agents capable of calculating the utility function of exchange partners? The third weak point of the rational choice model is its reluctance to integrate institutional constraints beyond the calculation of a partner’s likelihood of breaking rules and norms. That is to say, institutions are taken to be external constraints. The approach assumes that agents share expectations, norms and values that condition future desired outcomes; whereas norms, values and rules are simultaneously created and questioned by agents through social intercourse.

The second foundation for trust in Möllering’s model is routine or the idea that agents create a world in common with social partners and rely on this fiction to provide stability and meaning to exchanges. Trust here is the certainty we share a common world and will act accordingly to the rules and norms of that world. ‘Trust means... interacting with others on the basis that everyone knows and accepts the basic rules for that interaction’ (Möllering, 2006: 58). The problem with an institutional approach to trust (apart from the fact that it over-socialises the issue as much as the rational choice model under-socialises it), is that a) an agent must know the rules of the game, and, b) believe that the other player knows them and c) that the other player will respect the rules (Garfinkel, 1963 in Möllering 2006).

The third foundation for trust, reflexivity is the common sense notion that trust is built up slowly over time through repeated interactions where agents learn about each others’ expectations, values etc. But the process based view of trust neglects to explain why an agent would trust in the first place. We find ourselves in the situation where ‘trust works in practice but not in theory’ (Hollis, 1998:6).

All of the three bases for trust may combine together to provide more or less solid foundations for making a trust decisions, but Möllering (2006) argues that authors tend to confuse these foundations with trust itself. He draws on the sociology of Georg Simmel in order to introduce the concept of suspension which is in fact the leap of faith that is trust, i.e. acting ‘as-if’ irreducible social uncertainty has been resolved and ‘bridges uncertainty’ (Lane, 1998: 13).
Ic. Industrial Districts

Lack of space forbids us a detailed examination of industrial districts. Industrial districts are more than a simple juxtapositioning of atomistic entities manufacturing and trading in related industries. They may ‘be interpreted as cognitive systems; a socio-productive system where knowledge, social experiences, mental modes, and collective beliefs are accumulated in a specific place through time’, (Belussi and Pilotti, 2002: 125).

They represent a community of people bound together by similar values and views (behaviours, expectations etc). These common values are then spread through the district and over generations by a system of institutions (schools, families, churches, professional organisations etc.). An industrial district is a community of strong ties and intra-group bonding (Storper, 2005). Geographical proximity aids the development of trust and reciprocity through frequent, information rich, face to face contacts, both planned and serendipitous, in both social and business domains. The frequency and multiplexity of network relationships improves communication, reduces information asymmetries and enhances inter-organizational trust (Sydow, 1998).

Id. The Role of Trust in Industrial Districts

Trust plays a fundamental role in the industrial district model (Dei Ottati, 1994, Lorenzen, 2002). It is used to explain the efficiency of these local production systems through the reduction of transaction costs (where it solves coordination problems and replaces contracts, Dei Ottati, 2002). It is invoked to explain the capacity of district actors to cooperate for the common good, (trust as pre-requisite for social capital, Putnam 1993). Finally, it plays a mediating role enabling the rapid transfer of information between networked firms (Maskell and Malmberg, 1999). Trust is widely seen as central to the model but tends to be glossed over in district literature. For example, Barabel, Huault, and Meier, (2007), when examining the implications of increasingly dis-embeddedded relations in the Arve Valley (more off-shoring, new purchasing techniques etc.), feel obliged to call upon trust and cooperation as solutions for the valley in facing these future challenges.

In this paper we shall attempt to answer the following questions. On what bases do district actors trust? Is there a qualitative difference between intra- and extra-district exchanges? How do actors negotiate the transition between the interpersonal level and inter-organisational
level? Finally, by examining a high trust environment such as a dynamic industrial district is it possible to find elements of suspension in agents’ decisions?

II. Methodology

The Arve Valley is one of France’s few industrial districts (Ganne, 1992). It is a metal working, bar-turning or screw-cutting district. The heart of the district is comprised of 288 bar-turning firms (code NAF 25.62A) supported by a variety of specialist supplier firms and institutions, such as raw material and machine suppliers, surface treatment firms, research centres etc. 91% of district bar-turning firms are small or very small companies with fewer than 50 employees. One particular aspect of the district’s functioning is important to mention. Many firms are active in ‘mutual subcontracting’. Work is contracted out to other small bar turners for reasons of both scope and scale. It is not infrequent for firms to inverse their roles over time according to machine specialisation and availability. We interviewed 22 small firm owner-managers of bar-turning firms out of a total of 288 (i.e. approx 7.6% of bar-turning firms in the district, which in turn represents 60% of French bar-turners).

The sample is in one sense a sample of convenience – we interviewed small firm owners who accepted to spend approximately one hour in a semi-directive interview. Despite this, the respondents form a coherent group Only three of the 22 companies were run by what we could call ‘outsiders’: people who had not been raised and educated in the valley. 14 of the 22 companies were family firms, some in their 5th generation. 6 of the 22 were run with members of the close family, either siblings or in one case cousins.

We chose to use a qualitative methodology because in order to unpack such a complex, nuanced concept it is necessary to developed contextualized accounts of trust (Kramer, 2006). Trust research must confront several methodological problems. If we define trust as a psychological state (Rousseau, Sitkin, Burt, and Camerer, 1998), it will be necessary to observe manifestations of trust. In other words it is necessary to observe when actors pass from a trusting attitude or feeling to taking actions. Respondents may also take trust for granted and, for example, when asked to describe a trust based relationship, may see trust in

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2 Bar-turning is the best translation for the French word décolletage. They are in fact lathe operators who originally cut screws and precision parts for the Swiss watch industry (Geneva is situated 50km away).

3 Source: Diane database. Figures are for the Savoy département. Lack of space prevents us from a discussion of the pertinent boundaries of the Arve Valley district, but département figures capture the essential elements.
uniquely inter-personal or process terms (Deakin and Wilkinson, 1998). The question of trust may only arise when it is ‘put to the test’, that is, when unforeseen problems or misunderstandings arise (Möllering, 2006: 188). ‘Suppliers will only find out how trustworthy the customer is when short-term interests favour betrayal’ (Humphrey and Schmitz, 1998: 50). If asked directly about why they trust a particular partner, responses could be rationalised ex-post in order to justify decisions (Luhmann, 1979 in Möllering 2001). In order to avoid these methodological pitfalls and develop a coherent context of trust in the district, we avoided mentioning the word trust in our interviews and focused on problems that had arisen between bar-turners and their suppliers and clients asked owner managers to describe problems (past and present) that had arisen during exchanges with other companies. Figure 3 (below) details the different exchange relationships discussed and analysed.

![Diagram](image)

**Figure 3**: Exchange relationships discussed during interviews.

### III. Results

In the following section we shall systematically compare intra-district links with extra-district relationships with clients. This is a valid comparison to examine firstly because district literature posits strong trust between local partners (as evidenced by vertical and horizontal cooperation) but discussion of trust in districts has remained largely theoretical and ignores the quality of extra-districts relationships.

In response to our question ‘tell us about problems you have encountered with clients’, the majority of interviewee’s evoked problems with outside clients. The management of these problems was also qualitatively different when compared with local links.
III.a Reason:

III.a1 Information and calculation

Valley firms benefit from high levels of information concerning prospective partners. Information circulates in social and business networks facilitating the calculation of the likelihood of opportunistic behaviour. Districts may be characterised as (semi) transparent community markets (Maskell and Lorenzen, 2004). From an informational and calculative point of view (Coleman, 1990), managers could, then, possess sufficient knowledge to be able to calculate when to trust. However, although several respondents affirmed that ‘everyone knows everything in the valley’, and ‘there are no secrets in the valley’, it was interesting to note that some managers used local trade directories to find new sub-contracting firms with specific machines and skills. The local, state sponsored cluster coordinator invited 6 managers to lunch each Tuesday and was surprised to see that his guests frequently didn’t know each other (personal interview). There is, it seems, enough uncertainty in the district to make calculating partners’ future behaviour difficult.

If managers can use their network links to gain rich information about local partners, it is much more difficult for them to acquire reliable information about outside firms which participate in few, if any local networks. The primary source of information is the purchasing officer, who may or may not be a reliable source of information. ‘We try to interrogate the buyer – will this piece come back? Order 10 000 and we will deliver 1 000 per month – but write it down on the order form’ (Manager 9). Nevertheless bar-turners do search for information about clients through extended networks which cross district boundaries.

III.a2 Reputation Effects.

Small numbers in local networks also means that reputational effects are strong. Stealing clients is taboo. One respondent (Manager 10) maintained that he would never put himself in a position where he could be accused of poaching a colleague’s client by visiting, for example a transporter or a surface treatment company, where the pieces are labelled with the names of clients and bar-turners and laid out in batches in full view. Several managers swore that they would never work again with ‘colleagues’ who poached clients or qualified, experienced workers.
III.b Routine and Institutions

II.b1 Competition and cooperation.

Bar-turners are conscious of belonging to the same social group which has clear common goals. One bar-turner (manager 18), not able to manufacture a piece, made sure that the order went to another district firm.

Examining interview transcripts using the content analysis software Alceste reveals an interesting aspect of district managers’ world view. Very few respondents mentioned the word competitor during an interview, except to draw attention to competitors in Romania and China. Apparently there is competition between district firms but no competitors in the district. District transparency (Maskell and Lorenzen, 2004) seems to provide sufficient information to allow managers to avoid direct competition. This aspect is coupled with the large variety of product markets and manufacturing techniques facilitate the occupation of small, competition free niches. In our opinion the district grew rapidly in the 1960’s and 1970’s partly because high levels of information flows allowed entrepreneurs to find market niches where the start-up could avoid direct competition. Local competition existed but was tempered because ‘even with this recession, there is enough place for everybody’ (manager 5).

II.b2 Local norms

Local norms created by the community contribute to group cohesion in that they permit agents to align expectations of permissible behaviour. We can quote three local ‘rules of the game’. Don’t steal a colleague’s client directly (i.e. by deliberately contacting the client and proposing a better price rather than being consulted), and don’t poach other district firms’ skilled workforce. Finally, don’t reduce prices during an economic downturn. The former two rules seem to be respected, but the latter was not during the 2009 recession. It is worth remarking that the rule about not stealing a ‘colleague’s’ client was very clear and unambiguous. However, many managers noted that it was extremely difficult to know if the rule had been broken. How could a manager know that another had prospected a client or that the client had asked several valley firms to bid for work? When asked if they knew of firms who had broken this norm, managers replied yes, but refused to divulge names.

Outside firms do not and cannot participate in the construction of local norms. Increasing international competition and a professionalization of purchasers and their methods (see
below) put bar-turners and their clients on diverging paths and extra efforts have to be made in order to understand each other. With local suppliers ‘we can negotiate, discuss things, we understand each other, we’ve got the same mentality...with a client like that (a German firm) if I want the activity to last, we’ve got to work together otherwise we should stop’, (Manager 6).

II.b3 A norm of fairness.

One aspect of district life is the frequent sub-contracting out of orders to other bar-turners, both for scope and scale reasons. Over time, sub-contracting firms may swap places with their supplier. In many cases there seems to be relatively little discussion about prices for sub-contracted work. The goal (when sub-contracting out to other valley firms) is ‘not to make money (by squeezing) suppliers’ (Manager 5). A ‘fair’ price was proposed. A price which included an ‘acceptable margin’ which allows the supplier firm (another bar-turner) to make money from the work. The sub-contracting firm knew the supplier firms’ costs in great detail. Information asymmetry about costs was very low (same machines, similar techniques, similar firms, same rents etc.), and the margin shared between the two firms was conditioned by the (outside) client’s acceptation of the sub-contracting firms price.

External clients, particularly the automobile industry, were frequently perceived as disrespectful and unfair. A manager recounts the experience of a friend.

‘He (another bar-turner) was ‘invited’ to the buying center (of a large auto firm). They stuck them in little transparent boxes, showed them the pieces to manufacture and said what’s your price?’ (Manager 1).

Outside firms often made demands that were perceived as excessive and unfair. ‘If it’s a bad piece (poor quality), clients demand that we pay for the production line stoppage, the car in the car park and so on. We’re not like that’ (Manager 6).

II.b4 Homophily based empathy.

Owner-managers exhibited a marked tendency to empathize with other small business managers in the district, considering that everyone had the same constraints and preoccupations. ‘My neighbour is a colleague not a competitor’ (Manager 14), or, ‘we all come from production side of the business’ (Manager 5). With local firms ‘we have the same mentality’ (Manager 6).
Again purchasers from larger firms were perceived as being very different. ‘bar-turners had ‘problems with big international structures’ (Manager 2). ‘We had good relations with all the countries in Europe, then they named a head buyer for Europe from England. He’s really the basic buyer’ (Manager 3).

### III.c Reflexivity or Process based trust

District literature underlines how geographic proximity facilitates intense and frequent exchanges which in turn diminish information asymmetries and create inter-personal bonds between similar agents. Geographic proximity increases the possibility of chance encounters and reduces the costs of setting up information rich face to face meetings. Managers seemed to feel that geographic proximity simply made life easier, for example, ‘because these people are nearby we can react rapidly, go and see them to discuss technical problems and other things’ (Manager 2). Choosing a new sub-contractor (a bar-turner) was easier because ‘they’re not far from here’ even though ‘we don’t know them that well’ (Manager 11). Metal suppliers ‘are local, so we know we pay the (right) price’ (Manager 6).

Local relations seem qualitatively different when it came to managing disagreements. Managers seemed to go out of their way to accommodate ‘mistakes’ and ‘misunderstandings’ from local suppliers. Possible bad faith or opportunism on the part of local suppliers was evoked only once. Surface treatment firms seemed to receive a particularly indulgent treatment in terms of conflict management. They ‘don’t have highly qualified staff’, or work in an activity that is like ‘cooking’ (Manager 7); i.e. following the same recipe won’t always give the same results. Of particular interest was the indulgence accorded to local exchange partners. ‘I tend to be indulgent, above all if he’s never given us a problem before. I’ll give him one chance, the second time I’ll ask myself questions, the third time it’s no longer possible to work with him’ (Manager 5). This ‘3 strikes’ rule is similar to the concept of ilunga, from the Tshiluba language spoken in south-eastern DR Congo, meaning "a person who is ready to forgive any abuse for the first time, to tolerate it a second time, but never a third time" (Conway, 2004).

Relationships with outside firms were tempered by the imbalance of power between small and large firms. ‘As a sub-contractor, we are the safety valve’ (Manager 2). When negotiating quality problems with the client for example ‘you aren’t right, but we’ll help you out anyway’. ‘We asked for a meeting…this client is very important, so we’re a bit on the reserve’ (Manager 2).
II.c1 Long term relationships.

Small firms depend more than large firms on the resources they can access from their network contacts. Managing relationships (both internal and external) over the long term was a major worry for all interviewees. There exists a story or legend in the district which illustrates the importance bar-turners accord clients. It is the story of the perfect client: a ‘white knight’. This is a loyal client who orders a high margin piece which is not too difficult to make in large quantities over a long period. Telephone companies were such an example in the 1990s and these long term relationships were the basis of flourishing firms and local fortunes.

As remarked above, district actors were accorded other district managers a significant level of indulgence, the effect being to, seemingly ‘bend over backwards’ in order for the relationship to continue. ‘We have third generation clients’ (Manager 21). They perceive their management as being ‘diplomatic’ and lenient. ‘It was a bit through laxism, not wanting to thump the table’, (Manager 2).

Long term relationships are so important that bar-turners prefer to dissolve relationships rather than break them. ‘Shall we say that we provide fewer services. We increase the price, we don’t deliver on time. We know how to get rid of them’ (Manager 14). One never knows when one will need this client again (and vice versa).

III.d The Implications of Trusting Clients

The basic trust mechanisms of reason, routine and reflexivity demonstrate the solid foundations of inter-organizational trust in industrial districts. This trust is predominately inter-personal trust between small firm managers with similar backgrounds and preoccupations bound up in a solid all-encompassing social environment. Industrial districts may appear to be special and exceptional cases, but districts and clusters are, in their different manifestations, common in many different national economies (Porter, 1990, 1998, Enright and Ffowcs-Williams, 2000). More importantly, for our purposes, the high levels of trust shown in the Arve Valley allow us to contrast and compare trusting attitudes across different organisational levels. When we contrast the foundations of trust with insiders with the lack of foundations for extra-district exchanges, we find that bar-turners are on shaky ground indeed. Few of the trust antecedents which apply to district relationships are transferable to outside firms. District actors have transposed local trusting habits to situations where bar-turners have trusted (some) clients with unfortunate consequences.
III.d1 Trust not honoured: the problems of stocks

The most important manifestation of misplaced trust in clients was when bar-turners manufactured a buffer stock beyond firm orders and contracts. Sometimes this was done at the demand of the client, but frequently bar-turners manufactured stock without specific written orders. This decision, a clear manifestation of trust, was based on a simple heuristic which combined the extrapolation of past orders with the regularity of past orders and the likelihood of the part being redesigned or not. Although how managers obtained unbiased information about this last point is not entirely clear and would presuppose a relationship where information flowed freely between the two partners. A client would hardly say no to the proposition of producing a cost free buffer stock. This heuristic is demonstrated by the following quote; ‘Historically, if he’s been ordering for 10 years we can stock one (year’s production)’, (Manager 3).

This disposition to trust clients has led many bar-turners to produce buffer stocks in the absence of written or verbal agreements. ‘The verbal agreement was for €100 000, but, ok, the €300 000, was me who wanted to do it. It’s a service.’ (Manager17). The consequences of trusting clients and producing these specific components and pieces lead many firms to immobilising approximately 10% of their turnover, and thus making themselves vulnerable to clients stopping or reducing orders as happened to several firms during the sharp economic downturn of 2009. ‘... we’re sorting through it now... and we realise we’ve got a lot of money tied up in stock that we’re throwing away now’ (Manager 3).

In the absence of solid foundations for trust and the manifest lack of homophily, why then, did the bar-turners trust some of their clients so much? Why did they trust these clients to the extent of producing up to 10% of their turnover in stocks which were client specific and thus making themselves vulnerable to opportunism? It is important to note that this behaviour took place before the recession of 2009. Bar-turners were not obliged to blindly obey clients (there were other potential clients pre-2008) and in many instances they produced stocks without discussion, or over and above an agreed level. It was the recession in 2009, when orders fell approximately 30% across the board, which revealed this trust to be dangerous.

In the following section we shall firstly examine how bar-turners learnt to trust in a highly socialised environment and then transferred this trusting attitude to clients and how they managed the transition between inter-personal trust in districts and inter-organisational trust between larger clients. Then we shall examine how homophily may have influenced their
decisions and attitudes. But because, trust, by definition, involves agency, we shall then turn our attention to the leap of faith, or how bar-turners suspended their uncertainty.

IV. Discussion:

Two elements in particular come to our attention when analysing bar-turners’ behaviour when confronted with making trust decisions concerning outside clients. Firstly, trusting habits learnt from strong intra-district inter-organisational bonds are transferred to dealings with outside partners. Secondly, if intra district links are strong, it is partly because they are inter-personal links between similar agents (characteristic trust, Zucker, 1986, Storper, 2005). If relationships with clients were more inter-personal in the past (buyers were technicians who visited bar-turners and socialised with them), they have become less personal, more inter-organisational and arms-distant in recent years as ‘formatted’ professional buyers trained in new retail chain buying techniques by business schools (rather than engineering schools) create weaker personal bonds with bar-turners during fewer, if any visits to the district.

IV.a Learning to Trust

As demonstrated above, local transactions benefit from very solid trust foundations which facilitate the leap of faith beyond knowledge and experience (Lewis and Weigirt, 1985), which is trust. We could say that the three foundations; reason, routine and reflexivity (Möllering, 2006), reduce the distance that district actors must leap when deciding to trust. The social learning perspective of trust suggests ‘that people extrapolate from localised experiences’ (Glanville and Paxton, 2007: 232). Glanville and Paxton find support for the argument that trust is not only socially constructed, but our trusting attitudes are moulded and conditioned by past experiences and not by an innate predisposition to trust. Our cognitive structures are acquired from our experiences in the social world (Bourdieu, 1987). Equally, Mayer et al. (1995) consider this ‘propensity to trust’ to be a function of ‘developmental experiences, personality types, and cultural backgrounds’ (1995: 715), and to be stable across situations.

Local experience and positive examples showed young entrepreneurs entering the valley workforce that trusting decisions were valid and were the most efficient way of organising interdependence between valley firms. Positive attitudes, norms and expectations learnt from

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4 Möllering (2001, 2006), following Simmel and Luhman prefers the expression ‘suspension’ i.e. (suspension of uncertainty or doubt) to leap of faith. We could just as easily say that actors in districts have less uncertainty to suspend.
early experiences coupled with information passed down through parents, tutors and senior colleagues would be validated by personal, local experiences and therefore more salient, (Mahé de Boislandelle, 1996, Torrés, 2002, 2004). These examples, in this context lead SME managers to consider that trusting behaviours were the natural state of affairs, a ‘default’ setting for local exchanges (Maskell and Malmberg, 1999) which are transposed to extra-district relations. These attitudes and the transmission of a basic trusting heuristic would be reinforced by similar attitudes among others in the district and thus ultimately self-fulfilling especially when we consider industrial districts to be ‘a package of socially transmitted information, stored as discrete units of ideas and values’, (Staber, 2009: 557). This local, trusting attitude would be reinforced by the nature of district dynamics (multiplexity of contacts) and the importance accorded to the ‘here and now’ by SME managers (Torrès, 2002, 2004). ‘Because people have only significant contact with others like themselves, any quality tends to become localized in socio-demographic space’, (McPherson Smith-Lovin and Cook, 2001: 415). By quality here we would indicate the ‘natural’ (and well founded) tendency to trust local partners.

Homophily inside the district contributed to the creation and reinforcement of similar world views and expectations. In an exchange context where bar-turners had few solid foundations for trust with organizationally, geographically, distant partners, it is no surprise that this was felt to be a handicap in creating trusting relations (Detchessahar, 1998). Bar-turners showed considerable disappointment and even scorn (‘they could be buying parts or toilet paper, it’s all the same to them’, manager 15), when the buyer wasn’t from a production or metal-working background (organisational proximity) and wasn’t interested in forging personal links.

Homophilic network structures in districts exerted powerful influences on the way actors look to create trusting relationships with outside partners. DiMaggio and Powell (1983) suggest three institutional isomorphic processes, coercive, mimetic and normative processes. Coercive isomorphic mechanisms were used by clients who didn’t hesitate to take advantage of their size and positional advantages. Of more interest are mimicry and normative processes. Bar-turners trusted outside partners enough to produce stocks partly because ‘everyone was doing it’ and imitation reduces uncertainty. (Manager 17 went as far as to verify that other bar-turners were manufacturing stocks above and beyond written orders – but only after he was left with €300 000 of stock on his hands). Bar-turners reduce their uncertainty and increase their legitimacy by reproducing the behaviour of relevant others. District transparency
(Malmberg and Maskell, 2002) facilitates the perception and transmission of this strategy. This behaviour may become detached from its actual utility (DiMaggio and Powell, 1983). Firms may imitate what seems to be a superior strategy (and trusting partners seems a superior strategy: the success of district firms attests to this), not because it is superior but because imitation and adoption are less costly in terms of speed and cognition when compared to efforts that individual learning demands of an agent (Staber, 2009).

Staber (2009) notes limitations to imitation between cluster actors. Firstly, imitation may increase competition. When some bar-turners trust enough to produce buffer stocks, some clients may begin to transfer custom to those firms. If all bar-turners produce buffer stocks, risk and flexibility is transferred down the value chain to its lowest levels, ultimately fragilising the weaker district firms. Secondly, imitation may induce managers to ignore other potentially superior strategies. There are over 300 small décolleteurs in the Arve Valley. The valley has been a functional, dynamic industrial since 1945 or even since 1914 (the French government transferred arms and munitions manufacturing there during the First World War). Yet a vast majority of local firms remain small sub-contractors. Very few have developed their own products and brands in order to emancipate themselves from the diktats of clients. Thirdly, Staber (2009) underlines the imperfect nature of imitation as managers perceive others’ actions, interpret those actions (perfectly or imperfectly) and then implement them (perfectly or imperfectly). Some décolleteurs may trust some clients enough to produce some buffer stocks. This manifestation of trust may be interpreted as if the referent firm trusts all clients enough to produce buffer stocks.

These processes contribute to the transfer of trusting decisions form one context to another. ‘Trust stems from the actors’ isomorphism with institutionalized cognitions and actions. Due to external pressures to conform, the imitation of others in the face of uncertainty, or internalised norms and roles’ (Möllering, 2006: 65).

**IV.b In search of inter-personal trust**

This locally produced trust has proved effective when we look at the success of the Arve Valley and other districts and clusters, but the socially created basis for trust and habits formed over generations, has incited bar-turners to be too trustworthy towards different external firms.
This socially constructed trust is, as mentioned above, based on very solid foundations in the Arve Valley industrial district but these foundations for trust are significantly weakened when dealing with extra-district partners. In terms of calculating a partner’s intentions, for example, bar-turners lack multiple sources of information, and in the case of auto-industry clients, bar-turners have been mistreated enough in the past to doubt their goodwill. Local norms of equity do not apply in these relationships; there is only process-based trust left for the small firm managers. They can only advance prudently on the path to creating trust in an ongoing game of upward spiral reinforcement of trust (Zand, 1972), in which they strive to create ‘mini-societies’ of common norms and expectations (MacNeil, 1980). A socially produced trusting attitude induced bar-turners to trust outside clients too quickly and ultimately, imprudently.

In local exchanges, a predominance of small firms in the valley (over 80%), facilitated the creation of direct personal links with other, similar, SME managers (including suppliers and other bar-turners). One of the fundamental bases for trusting other SME managers was homophily; managers shared similar backgrounds and expectations, through schooling training and family influences. They had similar preoccupations and communicated easily with each other, creating and sharing local codes and norms. In trust terms, Zucker (1986) spoke of characteristic trust, where agents ascribe trustworthiness to particular groups of people (essentially one’s own social group). The coordination advantages of increased cohesion and strong internal bonding among small groups is well documented (see Storper, 2005 for a discussion), and in cluster literature many authors have underlined the role played, for example, by caste and ethnic origins (Dwivendi, Varman and Saxena, 2002, Schmitz, 1999).

Confronted with the problem of how to trust clients which were large, exterior companies, bar-turners attempt to trust on the inter-personal level. Outside firms manage their relations on an inter-organisational basis whereas small firm managers, by habit and routine look to create the inter-personal links common among intra-district exchange partners who are similar in training, experience and outlook.

They had difficulty grappling with relations at the inter-organisational level that larger firms imposed. They seemed to want to move directly from the inter-organisational level down to an inter-personal level by creating personal relationships and psychological contracts (Ring and Van de Ven, 1994) in an intense socialisation process where they needed to know the
purchaser personally as an individual rather than as a ‘role player’ (Lorenz, 2001, Ring and Van de Ven, 1994).

This problem is best seen in contrast to a former (romanticised?) epoch when buyers were organisationally closer to bar-turners and clients’ human resource policies allowed time to create personal bonds. Buyers 20 to 30 years ago were technicians who had been promoted to purchasing. They shared a similar technical background with the bar-turners. Empathy was born of this homophily. Today buyers have ‘no notion of time, difficulties, problems with machines. They say ‘get it done’. A technician wouldn’t do that, he’d say, I understand your problem.’ (manager, 17). The new generation of buyers were trained in business schools as much as in engineering schools in purchasing techniques directly inspired by major retailing chains. What matters is the final price, order volume and delivery dates. Negotiations are structured around ‘this is the price in China, can you better it?’, rather than any give or take in negotiating a ‘fair’ price. The notion of fairness seemed absent from these relationships as larger firms sought to take advantage of the suppliers smaller size and weaker negotiating position. Compare this to the situation of negotiations between bar-turners for sub-contracting work. Here there was little discussion of prices between parties because they knew each others cost structure and therefore had a good idea of a ‘fair’ price for a piece, and the corresponding margin accorded.

It was possible to create strong inter-personal links with outside buyers in the past. To such an extent that the buyer may have ‘crossed over’ and protected the SME’s interests, as the following anecdote shows concerning a buyer who was retiring after many years’ exchanges:


> ‘I had a buyer say – write a contract! We don’t have one, but let’s write one. The new bosses weren’t here two years ago, so let’s pre-date it two years ago and I’ll sign it like that’, (Manager 17).

Bar-turners regret this recent past when buyers were ‘humans’ rather than ‘sharks’, capable and willing of creating inter-personal relationships in a professional framework. ‘At that time our clients came to visit us, not like now. We worked in the morning and at lunch we invited them to the restaurant.’ ‘They weren’t mates, but we talked about things other than work; family, hobbies, holidays’, (manager, 17). To cap it all, bar-turners’ frustration was increased as client firms rotated buyers frequently in order to limit the creation of strong links where buyers could empathise with district firms. ‘Problems come along when buyers are changed’ (Manager 9).
District managers devoted considerable efforts to trying to get to know the outside buyer on a personal level in order to facilitate the co-construction of relationship specific norms and meanings on which trust can be built (Ouchi, 1980, MacNeil, 1980, Detchessahar, 1998).

IV.c Explaining Trust: Evidence of Suspension

The discussion of the foundations of trust miss the crucial point of what trust actually is: a leap of faith, or suspension of doubt (Möllering, 2006), ‘beyond the expectations that reason and experience alone would warrant’, (Lewis and Weigirt, 1985: 970), once the actor has established good reasons to trust (Möllering 2002) and that their decision to trust is ‘reasonable’ (Hollis, 1998).

The three mechanisms examined above form the basis from which we make the decision to trust – to behave ‘as-if’ doubt and uncertainty were suspended because, according to Möllering (2006: 110), ‘suspension is the essence of trust, because trust as a state of positive expectation of others can only be reached when reason, routine and reflexivity are combined with suspension’. They lead to trust but cannot explain the decision in its entirety. In order to advance further in our investigation of this central, indeed defining, element of trust, we need to investigate more thoroughly the concept of suspension, which for Möllering takes several forms, one of which we will develop here – identity and role. In our analysis of bar-turners in the Arve valley, we can see that they occasionally trust clients too much, not only because of the transfer of trusting attitudes from local to external exchanges, but also because they suspend uncertainty through living out their role as sub-contractors.

IV.d Identity and Role:

When we look into the question of why bar-turners trusted clients enough to over produce stocks, identity and role play an important function. Bar-turners have a very strong identity built up over decades in a restricted geographic space. They define themselves, for example as ‘sons of bar-turners’. Linked closely to this identity is the role that bar-turners play. The role of the bar-turner is defined in reference to their major resource: their clients.

The French for sub-contractors – sous-traitant – can be literally translated as ‘under-contractor’. One bar-turner (manager 14) made a gesture with his hand when pronouncing the sentence ‘we’re always under the client’. A bar-turner in this business is a ‘safety-valve’ for
the larger client. Bar-turners define themselves as being flexible and reactive. This enables them to provide a service to clients and differentiate themselves from more distant competitors such as the Chinese.

Bar-turners do not invent products; they do not have their own patents and brands. As a group they have remained ‘technicians’; producers of other peoples’ parts and components. This is why they define themselves in terms of providing services, being reactive and manufacturing stocks. A bar-turner is subservient, compliant and ‘never disappoints a client’. The relationship with the client must be maintained even though clients may not be open or entirely honest in their dealings. Bar-turners are proud to say that they have ‘third generation clients’. During the recession of 2009, many bar-turners reduced their prices drastically. This increased competition was not appreciated by other bar-turners for obvious reasons but particularly because when they put their prices up again after the storm, ‘the clients wouldn’t like that’ (Manager11). Managers talk of themselves as being ‘diplomatic’ even lax when resolving disputes with clients.

This almost submissive attitude explains why, despite the obvious risk, bar-turners provide stocks for clients. It ‘is a safety net for them’. ‘We assume the stocks’. This represents a risk and as such, an assumed risk, which indicates trust. Bar-turners have not always been given cause to regret producing stocks. We have heard many examples of clients warning bar-turners that orders would cease at a given date in the future (because of off-shoring or redesign of a piece for example). But it is striking to see that even when a client refuses to pay for stock, bar-turners expect reciprocity in return for past services and will appeal to a client’s better instincts and fairness when asking for payment.

There is clearly a collective idea or convention that the ‘client is king’. Bar-turners accept vulnerability to clients because that is their role, even if this means assuming (and looking to limiting) the risks that this entails. On the other side, clients also have to play their role in order to create ‘a stable fiction of reality’ (Möllering, 2006: 114), where agents can build positive expectations of others. Bar-turners remain attached to the idea of reciprocity in their dealings with clients. Providing stocks, being responsive and flexible, making themselves vulnerable to clients deserved and demanded comprehension from clients. The importance of reciprocity in difficult times represents a psychological contract (Ring and Van de Ven, 1994) which can only be inter-personal. There were many instances where this contract was accepted by both sides but refusal to accept it (automobile buyers) or respect it (when a client
was sold or the buyer changed) meant trust was not honoured in the cases we have described. Bar-turners achieved suspension because they arrived at a point where they treated ‘uncertainty as unproblematic’ (Möllering, 2006: 116) and even illustrated Luhmann’s (1979 in Möllering, 2006) idea of trust as a movement towards indifference.

V. **Conclusion.**

In this paper we have sought to examine how agents construct trust in the particular social environment that is an active industrial district.

Agents in districts construct strong local trust through a combination of reason, routine and reflexivity. The intertwining of social and economic networks in the district provides high levels of pertinent, up to date information about partners’ behaviour, character and reputation etc. The ‘shadow of the future’ lies heavily over the industrial district where bar-turners exchange work according to demands of scope and scale. Exchanges are repeated frequently over time and firms, reputations and even clients are handed down over several generations. Local norms and values are learnt from an early age through family, school, vocational training and early work experiences in an industry where long apprenticeships are the norm. The frequent exchanges between district actors permit the construction and reinforcement of district ‘code-books’ and the verification that partners adhere to these implicit and explicit rules. The sentiment and pride of belonging to a unique local productive system which dominates the industry in France and is a major player in Europe, creates a group or team spirit where agents frequently act in accordance with collective goals in a cooperative spirit rather than purely individualistic behaviour. These factors contribute to strong local ties as is posited in district literature but rarely examined empirically. Strong inter-personal trust in homophilic network exchanges becomes the ‘default setting’ for SME managers because they are manifestly efficient at the local level. This attitude is spread throughout the district by learning processes mentioned above, repeated and reinforced through isomorphic processes, notably mimetic and adherence to norms (Staber, 2009). There is strong evidence to support Glanville’s and Paxton’s (2007) proposition that trusting attitudes were learnt in local, salient situations and transferred to other, supposedly similar contexts.

Strong trusting relationships in the valley may be built on solid foundations, but we cannot say the same for exchanges with outside partners. Of the three foundations for trust, only process based trust was applicable to this situation. To construct more solid basis for extra-district exchanges, bar-turners attempted to re-create the inter-personal trust prevalent and
common in district exchanges. SME managers in the district proposed a psychological contract (Ring and Van de Ven, 1994) based on reciprocity and ‘fairness’ (service and flexibility on their behalf against continued orders from the client), which was occasionally refused or rescinded by clients. In fact, local trusting habits were transferred to outside clients, inducing bar-turners to produce buffer stocks, fully expecting clients to recognise this extra service. The recession of 2009 caused some clients to drastically reduce their orders and therefore exposing some bar-turners to the negative consequences of their trust.

Validating empirically ‘thick’ trust in industrial districts, its inter-personal dimension and adding empirical evidence to the social learning perspective of trust are interesting contributions to trust and district literature in themselves. But the major contribution of our paper is in the examination of a suspension mechanism invoked by bar-turners in their exchanges with external clients. Because we must not confuse the foundations of trust with trust itself it is necessary to examine the ‘leap of faith’ (Lewis and Weigirt, 1985) or ‘suspension of uncertainty’ (Möllering, 2001, 2006) that is the defining element of trust. In order to reduce uncertainty to manageable levels, SME managers accepted their subservient role as sub-contractors in exchanges with their clients. This role is closely linked to their strong collective identity. Not possessing their own products or brands, they took pride in their technical capacities and defined themselves as superior technicians and producers of complicated parts and components. It is their role to provide parts, services and flexibility to larger downstream firms. In return, clients are expected to play their role in the exchange in terms of fair and honest behaviour. Assuming an inferior role in exchanges allowed bar-turners to manage the risk of relying so completely on partners who did not necessarily share the same values and codes, nor operate on the same organisational level. The suspension of uncertainty enabled bar-turners to fulfil their role to the point of treating the question of trusting clients as normal and unproblematic to the point of indifference (Luhmann, 1979 in Möllering, 2006).

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