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## Article

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# Trust as an element of informal coordination and its relationship with organizational performance

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## Abstract

The main objective of this article is to contribute to a better understanding of trust issues within organizations to expand and refine theoretical constructs. Trust is approached in the economic perspective as a social mechanism for management. We seek to understand the role of trust in the informal coordination of relational contracts. We approach trust as a critical element in the execution of diverse organizational tasks and its mediating relationship with organizational performance. We conclude that trust is central to a better understanding of relational contracts and that investments made in a management style based on trust should observe economic rationality.

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## Resumo

O principal objetivo deste artigo é contribuir para uma melhor compreensão sobre as questões relativas à confiança dentro das organizações, de forma a expandir e refinar construtos teóricos. Confiança é abordada numa perspectiva econômica como um mecanismo social de gestão. Buscamos compreender o papel da confiança na coordenação informal dos contratos relacionais. Abordamos a confiança como um elemento essencial para a execução de diversas tarefas organizacionais e estudamos a sua relação mediadora com o desempenho organizacional. Finalmente, concluímos que a confiança é um elemento central para a melhor compreensão dos contratos relacionais, e que investimentos em um estilo de gestão baseado em confiança devem ter em atenção à racionalidade econômica.

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*Palavras-chave:* Confiança; Coordenação Informal; Contrato Relacional; Desempenho Organizacional

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## 1. Introduction

Trust has been the focus of several studies on organizational theory (Arrow, 1969, 1974; Barber, 1983; Burt and Knez, 1995; Granovetter, 1985; Gambetta, 1988; Lane and Bachmann, 1998; Mayer et al., 1995; Dirks and Ferrin, 2001; Zanini, 2005, 2007). In recent years, trust has continued to arouse great interest among organization scholars and researchers (Bachmann and Zaheer, 2006; Cook et al., 2005, 2009; Frankel, 2006; Kramer and Cook, 2006; Schoorman et al., 2007; Dirks et al., 2009). As a result, several contributions have arisen from other social sciences, including political science, anthropology, sociology, psychology, and economics (Cook et al., 2009).

The existence of trust between members of a company can contribute significantly to the increased efficiency of various organizational tasks (Dirks and Ferrin, 2001; Dirks, 2002). This increased efficiency, through trust relationships, of economic transactions internal to the organization may arise from the construction of intangible capital. In many cases, the existence of trust between members of a company may provide the basis for a competitive advantage or a distinctive organizational competence. The logic behind this function of trust lies in the way this informal mechanism operates in relational contracts, for example, employment contracts.

Many studies of trust in organizations present trust as a variable that influences or is influenced by one or several organizational variables. Missing from the literature, however, is a more comprehensive discussion of the role of trust in relational contracts (in addition to approaches outlined in previous studies, Williamson, 1996) and of how trust relations can influence organizational performance. This article therefore examines the following question: what is the role of trust in the informal coordination of relational contracts? This is the research question that guides our theoretical examination. Its relevance lies in advancing the discussion of this construct, as suggested by Zanini (2007).

In a social fabric in which economic actors are socially embedded, chains of social relations that allow for the transmission and dissemination of trust develop (Granovetter, 1985). This social embeddedness concerns the role of concrete personal relations based on reciprocity in generating trust and discouraging opportunistic behavior. Consequently, the quality and intensity of social relations facilitate the strengthening of trust while discouraging opportunistic behavior; intensification of the latter reduces the probability of the former, and vice versa. If these deductions are correct, a predominantly economic perspective on trust can be approximated by a predominantly social or cultural perspective. In support of these deductions, Granovetter (1985) argues that economic relationships are overlaid in a social context by strong expectations of trust and abstention from opportunism (Granovetter, 1985). Granovetter also argues that personal relationships, rather than institutional arrangements, are mainly responsible for forging trust in economic life, affirming our above deductions.

Employment contracts are relational contracts based on interpersonal trust. Although these contracts must be established through the use of explicit contracts – using formal documents – for legal reasons, over time they become relational contracts between interacting agents. The trust that can develop as a result of this interaction acts as an informal mechanism of control and coordination over various organizational activities. As observed by Arrow (1974), interpersonal trust in hierarchical structures can act as a ‘lubricant’ for the various economic transactions that occur between corporate agents. Instead of anticipating all future contingencies, relational contracts anticipate various uncertainties by way of transactions between interacting partners based on the past experiences shared by such agents. This is why these contracts are characterized as incomplete by definition. Contractual problems that may arise in an employment relationship can be significantly reduced in the presence of trust.

In this paper, we aim to analyze the trust element and its role in informal coordination and organizational performance. To better understand this social mechanism and its consequences within organizations, we divide this article into three sections. In the first section, we define and illustrate the trust element as an informal coordination mechanism within organizations. In the second section, we present both a definition and analysis of relational contracts, with trust as their central element. In the final section, we examine the relationship between trust and organizational performance.

## 2. Trust as informal coordination mechanisms

Hardin (1998) argues that trust relationships comprise three parts: (1) the personal characteristics of those who invest in trust – here we denote the individual who trusts as **A**; (2) the personal characteristics of those in whom trust is invested – here we denote the trustee as **B**; (3) the specific transactional context in which a given trust relationship exists – we denote this context by **X**. According to Hardin (2002), trust consists of an ‘encapsulated interest’, in the sense that the expectations of the individual who trusts (**A**) are based on his/her perception of the true motivations of

the trustee (**B**). Thus, even if these individuals differ in most of their incentives and interests, the existence of some common point of interest can stimulate **A** to make an investment of trust in **B**.

Moreover, [Hardin \(1998\)](#) recognizes the importance of social context. He argues that, depending on the specific context **X**, people have more or less incentive to invest in trust. It is important to note that a trust relationship can be established on different bases, in different ways, and at different levels. We can trust people on an ongoing basis, on various issues, or rely on them only once, in relation to a specific matter.

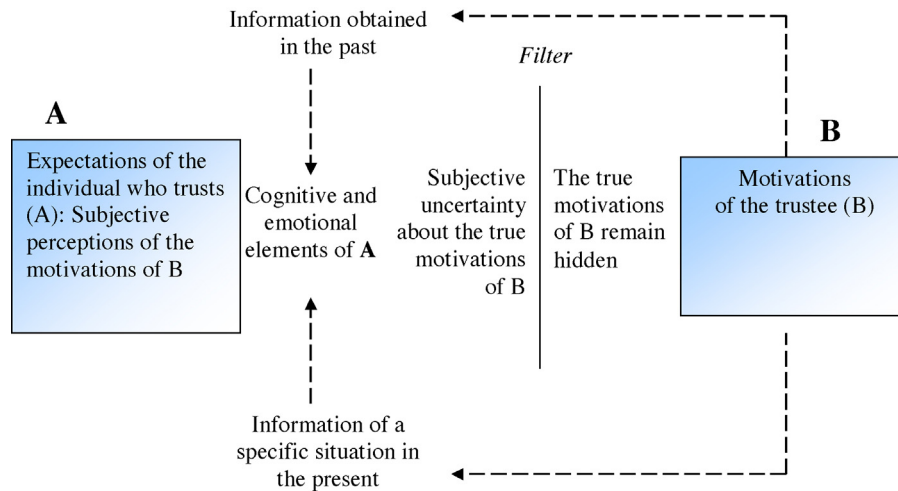
In the same line as that of Hardin, and in a complementary way, [Ripberger \(1998\)](#) presents a work that goes beyond the pure theory of rational decision-making to build a better understanding of the trust relationship, including certain assumptions about psychological states. [Ripberger \(1998\)](#) contributes to a better understanding of the investments of trust in cooperative actions, assuming that two conditions must be met for there to be trust: first, the coexistence of an *expectation of trust*, and second, a *trust-based action*. The existence of these two central components, an initial expectation and a subsequent concrete action, characterizes a trust relationship. According to Ripberger, an expectation of trust is defined as the expectation of those who trust (**A**) in another person (**B**), believing that the latter will not, in fact, act opportunistically. Thus, a trust-based action is a voluntary investment of the person who trusts (**A**), in the form of a concrete action involving behavioral risk, without resorting to any explicit security or control mechanisms.

The notion of behavioral risk intrinsic to trust relationships is presented by [Coleman \(1990\)](#). He notes that risk arises from the time asymmetries between an investment of trust and the opportunity to detect the results of this investment. That is, a party must invest resources before being able to verify the results, and thus trust operates as a social mechanism needed for the various economic transactions to occur. In this sense, people are motivated to trust one another in so far as such investments are likely to be in their interest. [Coleman \(1990\)](#) notes that an interacting agent will trust his/her resources to another agent as long as the former can trust that the latter will satisfy one's interests more effectively than one can oneself. Thus, trust becomes a social mechanism of risk reduction, allowing interacting agents to cooperate in meeting their interests and achieving their collective goals. Thus, as [Luhmann \(1980\)](#) notes, trust relationships can increase the efficiency of interactions, operating as a mechanism for reducing uncertainty.

According to this analysis, trust cannot be understood only as a predisposition or expectation but must be realized in an action involving behavioral risk. Such an expectation of trust manifests itself through an initial subjective state or an emotional reaction translated into a rational cognitive condition. Thus, an individual can evaluate and calculate his or her willingness to engage in a particular situation involving risk concerning how another will behave. [Ripberger \(1998, p. 45\)](#) defines trust as the voluntary, advance acceptance of a risky investment through the abdication of explicit contractual mechanisms of safeguard and control, in the expectation that the other party will not act opportunistically. According to [Ripberger \(1998\)](#), an expectation of trust, which is the prerequisite for a trust-based action, is based on the subjective perception of the individual who trusts (**A**) in the true motivations (perceived self-interest) of the trustee (**B**) corresponding to this investment. Thus, complementing [Hardin \(2002, p. 03\)](#), the individual who receives the investment of trust (**B**) 'encapsulates' the interests of the individual who trusts (**A**) the trustee to act in a trustworthy manner.

According to [Ripberger \(1998\)](#), the expectation of trust as a psychological state has two elements: an emotional aspect and a cognitive aspect. These two components coexist, and one can prevail over the other depending on the specific situation and the people with whom we interact. Sometimes an expectation of trust is based primarily on emotion. At other times, it is based on cognitive considerations. Consequently, interacting agents will vary in their motivations, sometimes driven by emotion and sometimes by cognition depending on the particular person or group of persons, situation, contexts and circumstances.

[Ripberger \(1998\)](#) comments that trust based on cognitive considerations involves the truster's (**A**) ability to calculate the risk of a given situation. Ripberger defines the cognitive aspects of trust as *cognitive trust* or *calculative trust* (*kalkulierendes Vertrauen*). Conversely, trust based on emotion involves affective or emotional characteristics of the individual who trusts (**A**). According to Ripberger, the emotional aspect of an expectation of trust cannot be separated from the analysis of the motivations for investing in trust because it carries within itself a fundamental aspect of a trust relationship: belief. Belief is necessary to overcome the imperfect information caused by the uncertainties arising from the limited intellectual penetration of **A**, the individual who trusts, into the true motivations of **B**, the individual who is trusted. However, Ripberger observes that the emotional elements are responses based on a cognitive understanding of a specific situation. Because emotions develop as reactions to cognitive understandings of specific situations, they acquire for us a comprehensible nature. Thus, although every expectation of trust carries in itself cognitive and emotional features, the cognitive aspects are more important than the emotional aspects in the analysis of



Source: Ripperger (1998, p. 95).

Fig. 1. The expectation of trust.

the motivations and reactions of the individual who receives the investment of trust (**B**). Consequently, because a trust relationship primarily pertains to the motivations of **B** (imperfectly accessed by **A**), each trust event involves initial recognition of the true motivations of **B**, even in strongly emotional situations. Fig. 1 illustrates the expectation of trust based on the subjective perception of **A** and the motivation of **B** to honor or dishonor the investment of trust.

The cognitive and emotional structures of **A** are influenced by the forms of perception and objective characteristics of a given situation, by information obtained from interactions with **B** in the past (in the form of reputation), and by information on the specific situation in the present. Ripperger (1998) observes a ‘filter’ that divides the perception of **A** from the motivations of **B** and from the true motivations of **B**. We now observe information asymmetry in trust relationships. Thus, we evaluate other people, or groups of people, based on the limited information we have about their true motivations (as ‘encapsulated interests’) to act in ways that fulfill our investment of trust.

An expectation of trust potentially exists as a degree of trustworthiness, even before a concrete action based on this expectation is performed. This expectation continues to exist during the course of a trust-based action, before the emergence of the results, after which the expectation of trust can be renewed. For this reason, we can recognize that **A** has an expectation regarding the behavior of **B**, regardless of the realization of a concrete trust-based action. Thus, we can observe that **A** has a certain predisposition to voluntarily engage in a specific risk situation with **B**, regardless of the chances of interaction between them. This expectation of trust can be understood as an informal motivation for a possible concrete trust-based action.

### 3. Relational contracts based on trust

Having analyzed the mechanism of trust in interactions between agents in the first part of this article, we now seek a better understanding of the role of trust in relational contracts. Trust is recognized as a central element in effective evaluations of relational contracts (Kreps, 1990; Wolff, 1996; Casson, 1997; Gibbons, 2000, 2001).<sup>1</sup> From an economic perspective, relational contracts, such as employment contracts, are incomplete contracts used to explain cooperation in a world of uncertain future events (Furubotn and Richter, 2001). By definition, relational contracts refer to long-term contractual relationships so that any new information that is made available, both exogenously and endogenously to the system, may result in new behavioral options for interacting partners (Wolff, 1995). Thus, it may be advantageous

<sup>1</sup> Gibbons (2001) notes that relational contracts are sometimes called “self-enforcing” or “informal”, or both. The use of the term “relational” follows the law literature, particularly Macneil (1978). For original definitions of relational contracting from an economic perspective, see Simon (1951) and Bull (1987).

for interacting partners to incorporate this new information into the relationship, thus seeking a sequential equilibrium over time.<sup>2</sup>

By definition, relational contracts cannot be monitored or controlled by third parties. Therefore, contractual rearrangements are necessary from time to time to ensure a process of continuous co-operation between all interacting partners. According to the specific context, trust can be highly desirable and efficient in addressing behavioral uncertainties caused by the emergence of new information. The greater the frequency of the appearance of new information in the system, the higher the chances of increased behavioral uncertainty and the more necessary it will be to use relational contracts based on trust to manage this uncertainty. Thus, the relevance and efficiency of trust as a governance mechanism is primarily related to the degree of endogenous and exogenous uncertainty caused by a lack of trustworthiness of information or the frequency of emergence of new information that may modify behavior. Furthermore, social mechanisms such as trust are especially important when ending a relationship has a very high cost (particularly when a relationship has been built over time).

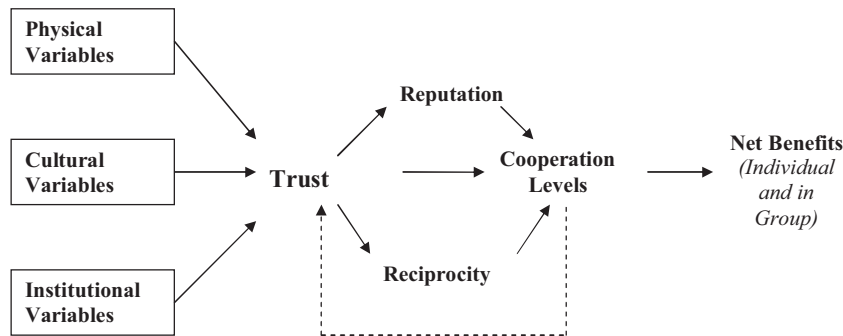
In this sense, employment contracts are examples of relational contracts based on specific relationships. These contracts can combine the characteristics of formal contracts, due to legal requirements, and characteristics of informal contracts in the form of reputations built within idiosyncratic relationships. Employment contracts utilize mechanisms that foster the fulfillment of contracts (*self-enforcing*) to ensure the efficiency of contractual relationships precisely because of difficulties involved in monitoring and evaluating them (Keefer and Knack, 2005). They can be better understood in the reputational model of rational behavior in the presence of unforeseen contingencies (Kreps, 1990; Wolff, 1996). In this case, the trust generated in interpersonal relationships functions as a self-control mechanism, present to some degree in all labor relationships. The logic lies in the fact that the parties agree in advance to cooperate in the long run because each wants to maintain his or her reputation for future transactions. Some time ago, Macauley (1963) argued that businessmen seek to keep their commitments based on their reputations and personal friendships.

Under an economic approach, the central premise of relational contracts is that they are based on trust, allowing for risk allocation or risk absorption in resource sharing. In this sense, it is possible to observe the coexistence of formal and informal properties in relational contracts to ensure the commitment of the parties to the attainment of mutual benefits (Kreps, 1990; Wolff, 1996; Casson, 1997; Gibbons, 2000). Each party, motivated to maintain its credibility and reputation, will act cooperatively. As Keefer and Knack (2005) observe, when the parties inherently trust each other, it is easier for transactions to occur. The basic condition for this is maintenance of expectations of continuity of mutually beneficial relations over the long run. Thus, trust becomes an essential element in relational contracts because, as stated by Arrow (1969), in the absence of trust, it is extremely costly to seek alternative sanctions and guarantees, inhibiting many opportunities for mutual cooperation.

The essence of trust in relational contracts is the understanding that each party should benefit from the relationship. In short, a lack of trust can mean the absence of transactions and situations of mutual benefit. Relational contracts involve investments in sharing open communications and sensitive information in the promotion of complementary knowledge. In this sense, Macneil (1978) highlights two elements of relational contracts: the harmonization of internal conflicts and the preservation of relationships.

Lack of trust in employment contracts can entail an absence of higher levels of effort to achieve more efficient cooperation and thus an inefficient use of resources. When judicial solutions are replaced by private ordinances in contractual relationships, the trustworthiness of promises requires *credible commitments* (credibility) that act as the “cement” of relational contracts between individuals (Furubotn and Richter, 2001, p. 276). Credible commitments involve acts of reciprocity that protect a bilateral relationship when they take the form of irreversible investments and specific investments (Williamson, 1985, 1996). As noted above, a mutual-trust relationship, based on reputation, can be used as a safety device to build *credible commitments* through targeted investments over time when individuals use reciprocity strategies (Kreps, 1990; Wolff, 1996; Furubotn and Richter, 2001). In Kreps (1990), the effects of reputation are built on social norms and principles of justice and mutual benefit, which in turn should give those who are hierarchically inferior an idea of how the organization will react under various circumstances that may arise. Finally,

<sup>2</sup> Bull (1987, p. 149) uses the following definition based on game theory for implicit contracts: “*implicit contract is a noncontractual agreement that corresponds to a Nash equilibrium to the repeated, post-hiring, bilateral trading game other than the degenerate agreement consisting of a sequence of Nash equilibria to the one-shot trading game.*”



Source: Ostrom (2003, p. 51).

Fig. 2. Feedback relations in repeated social dilemmas.

as noted by Williamson (1985), these principles should guide behavior and expectations within a company, promoting job security and protection against exploitation.

Trust is related to repeated interactions and irreversible investments. If these experiences bear out the invested trust, they act as mechanisms that promote the fulfillment of the contract, lessening the chances of opportunism by either party. A reputation system is built on trust relationships over time and is also a prerequisite for the development of behavioral patterns. Hardin (2002) refers to this effect of maintaining trust as a ‘feedback loop’.

Based on studies of collective behavior in social dilemmas, using *Repeated Games*, Ostrom (2003) presents a scheme (Fig. 2) containing the central variables in the maintenance of trust relationships, namely, reciprocity and reputation. In the model presented by Ostrom (2003), the physical, cultural, and institutional variables are critical to the formation of the social context in which human interactions occur and can promote or inhibit investments of trust. Thus, the physical distance between interacting agents, a behavioral model that stimulates or inhibits cooperation, and the nature of the production system, which may require more or less interaction between individuals, are core elements of the analysis of trust relationships. These, in turn, will be supported by informal rules of reciprocity and reputation between agents. Reciprocity and reputation will directly influence the perception of risk by inhibiting or promoting trust relationships that will influence the levels of cooperation and the ability of a given social system to produce individual and collective gains.

People in general will use past experience to guide actions in the present. The more benefits people have received in the past, as a result of interactions with other partners who have used reciprocity strategies, the greater their inclination will be to use reciprocity strategies in the present. The more frequently people have used reciprocity, the less inclined they are to *defect*. In general, this implies that interacting agents will have greater or lesser trust that others will act in a reciprocal manner, according to their personal standards, based on past experience. However, this will be affected by the information that individuals might have regarding the reputations of their interaction partners in the present. Based on such information, they can evaluate the risk of investing trust in a given individual in a given situation.

Thus, trust can be seen as a rational form of cooperation under conditions of behavioral risk. Moreover, companies, in this sense, can be understood as networks of relational contracts between their corporate members. According to Furubotn and Richter (2001), companies are social institutions that involve, in addition to rules, investments in the cultivation of relationships between individuals. The authors argue that strengthening the organizational culture, as a mechanism for sharing information and reducing behavioral risk through mutual trust, is an important objective of investments in trust. Thus, levels of trust within companies can be seen as indicators of the management efficiency of relational contracts. One of the functions of networks of relational contracts based on mutual trust is to enable firms to survive future market uncertainty. This reasoning suggests that the presence of trust becomes relevant, for instance, during processes of change, for example, processes of rapid growth or downsizing, mergers and acquisitions, and succession processes, as such changes tend to transfer uncertainty to the social relations internal to the company. In such situations, existing trust ensures fulfillment of expectations between the parties.

Within organizations, we can divide the sources of information needed for the development of trust relationships in relational contracts into two categories: specific information and general information (Ripperger, 1998). This distinction helps us better differentiate interpersonal trust (perceived trust in competencies and/or intentions between interacting

agents) from organizational trust (perceived trust in an organization). Although these information categories are not entirely independent, and their boundaries are not always very clear, they allow us to understand some important aspects of the development of trust relationships.

We can observe two specific information categories: (1) specific information related to a particular person and a particular situation **X**; and (2) specific information related to the reputation of **B**, or the trustee, a category that includes public information about the trustworthiness of a particular actor. Although reputation does not function as a perfect substitute for information originating from real interactions between two agents, reputation is an important source of information for the agent who invests trust. Additionally, we can also observe two general information categories. The first is general information related to systemic belief, that is, the belief of the agent who trusts (**A**) in the trustworthiness of a particular social system. This category refers to the perception of trustworthiness not related to specific individuals or specific situations but the characteristics of individuals who compose a group of people within a system. The second general information category relates to the atmosphere of trust experienced by the interacting agents within a system. In this case, the more people involved in a relationship of trust, the higher the quality of the atmosphere of trust will be. Wolff (1996) and Ripperger (1998) argue that this dimension is related to the norms, values, and sanctions that drive behavior in the corporate culture.

Maintenance of an atmosphere of trust is proportional to the institutional conditions and the specific investments made over time. Thus, we can expect that the process of building an organizational culture that supports relationships based on personal trust is a process that uses time as a major resource so that norms of interaction can be constructed and internalized. In this sense, behavioral patterns are created over time, preserving the perception of mutual benefits between individuals and of fair gains among parties. Thus, it is possible to develop levels of perceived trustworthiness among the members of a company (or between interacting agents from different companies) and thereby stimulate investments in trust. This process ultimately creates a virtuous circle of cooperation, as cooperative interactions contribute to the continuity of relationships and the strengthening of institutions that promote trust relationships.

#### 4. Relation between trust and organizational performance

Trust between interacting agents is a necessary aspect of organizational performance but does not fully explain it. As discussed by Granovetter (1985), trust that originates in personal relationships also provides opportunities for opportunistic behavior. Langfred (2004), for example, demonstrates in an empirical study that high levels of trust, under circumstance of high individual autonomy, can be harmful to the performance of self-managed work teams. This returns us to the need to analyze trust levels in a non-isolated way and to take into account the specific context of the analysis. Thus, empirical studies have often suggested that trust plays more of a moderating than a direct role in organizational performance (Dirks and Ferrin, 2001; Maccurtain et al., 2009). Such studies have found, for example, a positive effect of trust on leader-follower relationships (Dirks, 2000, 2006; Dirks and Ferrin, 2002) the process of knowledge transfer (Rolland and Chauvel, 2000; Roberts and Van den Steen, 2001; Maccurtain et al., 2009), employee commitment (Brockner et al., 1997; Pillai et al., 1991; Ugboro, 2003), and efficiency and organizational productivity (Ring and Van de Ven, 1992; Lane and Bachmann, 1998; Sako, 1998). Dirks and Ferrin (2001) present a meta-analysis of various empirical studies that confirm the positive effects of trust on attitudes and behaviors of individuals within organizations. According to these authors, higher levels of trust should result in more positive attitudes, higher levels of spontaneous cooperative behavior, and thus better performance. Trust is also observed by Aryee et al. (2002) to play a role in collective perceptions of distributive and procedural justice, job satisfaction and turnover intention.

This does not mean that high levels of trust necessarily motivate better performance or even that companies with low levels of trust will have low organizational performance. In order to consider alternative governance mechanisms in a cost–benefit analysis, it is important that the analysis of the relationship between levels of trust and organizational performance take into account the institutional context or environment in which transactions occur (Zanini, 2007). Therefore, the adoption of a management style based on trust involves inherent costs in establishing a context in which some prior and fundamental elements involved in building trust-based relationships are created and maintained. Ultimately, as stated by Hadfield (2005), what primarily defines this cost–effectiveness relationship are the various institutional arrangements that are experienced as environmental uncertainties.

As noted above, the notion of trust is associated with the notion of behavioral risk, which, from an economic perspective, implies associated costs (Coleman, 1990; Ripperger, 1998; Wolff, 2000; Zanini, 2007). The development of trust takes time and requires specific investments for its emergence and maintenance within a company. For a



company to adopt a management style based on trust, it must maintain certain elements that support trust relationships, such as behavior, conduct, punishment standards, organizational transparency, and clarity in corporate communications. Furthermore, the effectiveness of a work environment based on trust relationships requires investments in maintaining relatively stable conditions and prospects of continuity of employment contracts. The collective perception of fairness in the procedures, as in the measurement and distribution of proceeds, is also critical for the management of trust levels. [Whitener et al. \(1998\)](#) present a study of aspects of the construction of environments that foster trust relationships. Such aspects include the quality of internal communications, perceptions of integrity, concern for employees, and sharing and delegation of authority. These variables also provide us with means of assessing these environments and the management of intangible assets. Management styles based on trust can be highly beneficial in the fulfillment of certain organizational tasks, although the institutional context in which the company is included must be considered ([Zanini, 2007](#)).

The great benefit of working environments with a “high trust” atmosphere is that they allow individuals to conduct transactions without the need of safeguards against possible opportunistic behaviors of others, enabling them to accept greater risks in these transactions. In “low trust” environments, people will be more fearful of making investments of trust in one another because they perceive low levels of motivation in the interacting partners to adopt reciprocity strategies and a higher probability of suffering losses in transactions. However, we should note that in specific organizational contexts, it may be that internal competition among individual members of the company is more efficient and produces better results. When the efficiency of a business unit depends on a strategy that encourages internal competition, such a process fosters a natural selection of individuals and may privilege individual rather than collective effort ([Lazear, 1998](#)). In some cases, low levels of interactivity may lead to better results. In these cases, the compensation system will favor and reward individual efforts. Consequently, individuals may make greater efforts to achieve promotion and obtain higher salaries. In these cases, investments in creating and maintaining an environment that fosters interpersonal trust between individuals may not represent the most efficient way to achieve results. Conversely, where the system encourages internal competition between employees of a company, attempts to forge personal bonds of trust can be extremely difficult and slow. In other situations, the use of explicit control may be more advantageous than relying on trust relationships. When outcomes are relatively easily measured, when tasks have low complexity and do not require creativity, learning speed, conceptual understanding, or critical transfer of knowledge, the application of specific mechanisms appears to be more efficient ([Ouchi, 1980](#); [Osterloh and Frey, 2000](#)). However, this does not appear to be the case when production systems require the sharing of sensitive information for the execution of specialized and complex tasks, and gains are achieved through interactions of working groups ([Ouchi, 1980](#); [Adler, 2001](#); [Maccurtain et al., 2009](#)). As stated by some authors ([Osterloh and Frey, 2000](#); [Adler, 2001](#)), when organizational tasks are based on innovation, creativity, and product development, the best results can be achieved through intense interaction between people.

Another reason for selecting a management style based on trust is that performance measures may be ambiguous. As [Ouchi \(1980\)](#) comments, in such cases, trust is essential for the alignment of individual and organizational goals. Where traditional bureaucratic mechanisms based on explicit control fail because it is impossible to externally evaluate the value added per individual, the use of trust is more strongly recommended. Some scholars note that the intensive use of explicit control mechanisms, such as formal monitoring, is likely to increase the risk of opportunism ([Van de Ven and Walker, 1984](#); [Aulakh et al., 1996](#)). Thus, over-reliance on explicit guarantees can greatly impair the development of trust relationships. Undermining trust relationships can be costly because the use of trust does not require additional expenditures with legal guarantees. Where trust is present, the need for explicit monitoring and control and its associated costs are reduced. In addition, the intensive use of explicit control mechanisms involves not only investments in formal monitoring and control but possibly a considerable loss of motivation of individuals in meeting organizational goals ([Ripberger, 1998](#)).

[Ouchi \(1980\)](#) and [Dasgupta \(2000\)](#) note that the ability to monitor the actions of individuals is crucial in deciding between explicit control mechanisms and trust. Insofar as tasks become more complex, interdependent or ambiguous, the ability to monitor and evaluate individual performance is reduced. In these cases, contracts become more dependent on informal agreements between agents, and trust is required for expectations to be met.

Empirically, we will always find a combination and coexistence of formal and informal mechanisms acting in complementary ways at different levels within business environments ([Ouchi, 1980](#); [Bradach and Eccles, 1998](#); [Zanini, 2007](#)). [Ouchi \(1980\)](#) notes that complementary formal and informal control mechanisms can often be found at different levels in any organization.

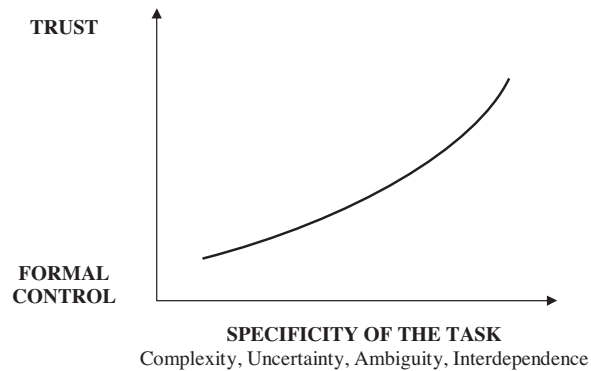


Fig. 3. The relationship between need for trust and the specificity of the task.

We thus propose the graph in Fig. 3, showing the relationship between the need for trust and the specificity of organizational tasks. Insofar as organizational tasks are more complex, uncertain, ambiguous or interdependent, the need for trust between interacting agents increases. The graph suggests that efficiency in the execution of organizational tasks of this nature will depend largely on existing trust between interacting agents (e.g., in the relationship between managers and subordinates, partners, coworkers or agents in multifunctional teams). Insofar as the good produced demands the involvement and contribution of several experts, it is more difficult to measure the individual contributions of each agent. When individual evaluation is ambiguous, productive activity will depend on the trust that interacting agents have in their own appraisers or in the evaluation system. The same is true of more complex tasks, where the results to be obtained are more unpredictable.

Conversely, the less complex, uncertain, ambiguous, and interdependent are the required tasks, i.e., the more predictable are the results, the less is the need for trust, and in such cases, formal contracts could be used relatively more efficiently. However, as noted by Zanini (2007), reliability and control are better understood as complementary management mechanisms, not as substitute ones. There will always be some level of both trust and control in any organizational environment.

## 5. Conclusions

Although organizational theory has advanced in the study of trust in recent years, we seek to introduce in this article a functional logic to better understand the role of trust relationships within organizations, based on an analysis of the role of trust in the informal coordination of relational contracts. We have observed that trust is a key element in informal coordination within companies and in the construction of intangible assets. In the first section of this paper, we examined some properties of the trust element, to better understand the functioning of trust. We then analyzed trust as a central element in relational contracts – namely employment contracts – that have a standard legal mechanism and a relational contractual relationship that develops over time. We identified the trust element of this implicit contract as central to the efficiency with which organizational tasks are accomplished. In the final section of the paper, we analyzed the relationship between trust and organizational performance. We observed that trust is not a determining variable in organizational performance but can be better understood as a mediator that indirectly contributes to the coordination of various organizational tasks. We thus proposed a theoretical model that relates the specificity of the organizational task (complexity, uncertainty, ambiguity, and interdependence) to the need for trust or formal control. We have thereby sought to advance the discussion of the role of trust in organizational performance. Trust is a factor in need of greater understanding, and the examination of its relationship to organizational performance opens a wide field for future research.

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