

The Concept of Trust in Socio-Economic Life

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Abstract

The concept of trust is considered as a psychological and sociological phenomenon. Numerous theories have been developed to achieve economic development and to increase the level of welfare. The theories have not always revealed the expected results due to ignoring human behavior. Behavioral models addressing human behavior have gained importance in recent years. Thus, it was seen that emotions and thoughts were effective in creating different economic decisions. One of the factors affecting decisions is also trust. The aim of the study is to clarify the effects of the concept of trust on socio-economic life with different perspectives. When the literature is examined; There are concepts such as (i) social trust and (ii) economic trust. These concepts are related closely with some topics such as marketing and business, finance and economics. Some positive results are expected from the climate of trust. (i) With the establishment of appropriate communication between individuals, some social problems and their costs are reduced. (ii) The development of business-customer relations is beneficial for both sides. (iii) With the positive relations between fund providers and fund seekers in financial markets, financial institutions work more effectively and the markets grow. (iv) Financial growth also triggers economic growth and development. (v) Economic trust, as a measure of future assessments, increases economic activities. The study collectively evaluates the effect of the concept of trust in different areas. The findings show what kind of legal arrangements should be made by policy makers in different areas in order to increase the trust of people. ¹

Keywords: Trust, Confidence, Socio-Economic Life

1. Introduction

People make many different decisions in their daily lives. Although these decisions are considered as the decisions special to the individuals and concerning them, total behaviours of the whole individuals may become the common behaviour of the society. One of the most important factors affecting the human behaviours is trust. Trust is related with the second step of Maslow's (1943) theory of hierarchy of need following the basic needs.

Trust has got many different dimensions. People's trust in the others that they know is different from the trust in the others around that they do not know. Citizens' trust in the state, patients' trust in doctors, customers' trust in company, a trainer's trust in a sportsman or sportswoman for the sportive success, investors' trust in finance performance of the company that they invest in, a customer's trust about the fact that money in the account is safe are the examples about trust relations. There are many factors that cultural differences are included and affect the trust in different countries (Çetin and Demiral, 2018). Power distance, collectivism, avoidance the ambiguity, generosity, protecting others rights, sincerity and self-sacrificing behaviours (Çetin and Demiral, 2018), development levels of countries, macroeconomic stability and especially the legal rules are effective in creating interpersonal trust (Calderón et al, 2002).

The purpose of this study is to assess the usage of the trust in different meanings especially in the fields of company administration, finance and economics and clarify the features of different usages. Another purpose is to discuss to what extent trust is effective in different fields in accordance with the literature. The study continues with the definition of the dimensions of trust, explanation of the effect of trust in different fields and conclusion following introduction chapter.

¹This paper was presented in ICSS XVIII, 18th International Conference on Social Sciences to be held in the premises of Faculdade de Letras, Universidade de Lisboa on 17-18 May 2019

2. Trust and Its Dimensions

There is no common definition about trust. Trust is a concept which is valid in all of the fields that people are in such as company, economy, politics, public administration, sociology, psychology and medicine. Therefore, different definitions with different perspectives can be made. Trust relations are observed at intra-organizational, inter-organizational, intercultural, interpersonal and inter-organizational, citizen-state and company-state levels.

Butler (1991) defines trust as the desire to be unprotected due to the fact that an individual believes that another one is competent, clear, concerned and trustworthy. According to Hosmer (1995), trust is that individuals manage to have optimistic expectations during their decisions in case of exposure to danger or obedience. For Newton (2001) trust as the worst is that individuals act in accordance with their benefits or thinking that individuals will not harm consciously or unconsciously. In this case common point of the definitions is that the individual think that the behaviours from others will not be harmful, but useful.

Trust has different components. Sekhon et al. (2014) discussed the components expressing the trust to an organization in five dimensions. Accordingly, in order to ensure organizational trust, expertise and competence, integrity and consistency, communication, shared values and concern and benevolence dimensions are effective.

i. Expertise and Competence: It refers to the necessary information level that individuals, companies or corporations have in order to do a certain work and necessary skills to fulfill it. Competence can be defined as observable behaviours including the attitudes besides information and skills (Biçer and Düztepe, 2003). The experience that the employees have in a certain issue also contributes to expertise and competence (Doney and Cannon, 1997).

ii. Integrity and consistency: Integrity and consistency means keeping the promises (Mayer et al., 1995). This is highly related with trustworthiness. In addition, an individual wants to be sure that another individual is honest and will fulfill its responsibilities. The fact that standard works are always performed as the same without any distinction of person and personal qualification indicates the consistency. Consistency means that a behaviour in the future can be predicted before (Sekhon et al., 2014). Sustainability of this consistency affects the trustworthiness of the performer of the work positively.

iii. Communication: A healthy communication affects the trustworthiness positively. Sensitive behaviours by the counterparty in communication, sharing a new information about the work on time and being always ready for communication create trust on individuals. An effective communication should not be one sided, but should have a structure in which parties are open to each other (Solomon and Flores, 2001).

iv. Shared values: The fact that a company has the same values and concerns with customers and company behaviours are in harmony with objective thoughts of customers increase the trust to the company. The harmony of values between two sides will lead to more trustworthiness (Sekhon et al., 2014).

v. Concern and Benevolence: Concern is the effort of a company to provide customer satisfaction. Benevolence consists of three dimensions. According to Sekhon et al. (2014), these are the effort by the company to protect both its own interest and customers' interest, company care and sensitivity about customer relations and voluntariness and willingness about solving problems.

In order to ensure a complete trust, trust dimensions should be in harmony with each other. For instance, there may not always be harmony between competence and honesty which are the trust dimensions. In other words, a company's management may be competent to perform a work, but may not be honest. In this case, a single mistake will result in loss of trust by eliminating other truths.

Another concept of trust in daily life is economic trust which expresses the expectations of individuals about the future of economic atmosphere in the country. In communication about economic trust there is no one directly opposite the individuals.

Trustworthiness occurs in two ways. These are cognitive trust and affective trust. Cognitive trust occurs based on beliefs and information about other people. This type of trust reflects the informed choices of individuals such as believing that other individuals are talented and safe (McAllister, 1995). Affective trust depends on connections in relationships and it is thought to be structured with components such as care and concern to others according to McAllister'a (1995).

2.1. Individual and Social Trust

According to another view, trust is divided into two parts as (i) personalized trust and (ii) social trust. i-Personalized trust is the feeling of trust that a person perceives for the people he or she knows such as family members, friends and boss (Gür, 2017: 30). ii-Social trust is also called as generalized trust and it means the people's trust in unknown individuals.

Individuals' trust to corporations can also be discussed in another title. Corporate trust refers to an individual's trust in a company, organization or governmental organization. Initially the individual is the trustor and the corporation is the trustee in individual-corporation relationship. Corporate trust is a feeling that an individual feels for the corporation. Yet, corporate trustworthiness is a characteristics of a trusted corporation.

Corporate trust can be discussed with two perspectives as external and internal. External dimension refers to the trust level of customers and public about the corporation. At that point, corporate trust can be measured with a scale used by Sekhon, et al (2014).

Internal trust relationships are called as "organizational trust". Mutual trust relationship between seniors and juniors and juniors and seniors in a corporation may also affect the organizational performance. However, these trust relationship are extracted from the scope of this study.

2.2. Economic Trust

The objective of economic trust is not other people and corporations, as in others. Economic trust handles a concrete factor such as all individuals, corporations, laws and business atmosphere in economic life.

Economic trust is defined as a measure of the expectations, evaluations and tendencies of the actors in the production and consumption parts of the economy about the general economic situation (Turkstat, 2019). This measure is a compound index indicating the expectations of individuals or producer companies about the future. The components of the index are customer trust index and real sector (manufacturing industry), service, retail trade and construction sectors trust indices and sub-indices belonging to them. Economic trust index is prepared by weighting these trust indices. Totally 20 sub-indices belonging to customer, real sector, service, retail trade and construction sectors are used in calculating the economic trust. Economic trust index more than 100 indicates the optimism about general economic situation; however, economic trust index less than 100 indicates the pessimism about general economic situation.

The components of consumer trust can be expressed as (i) the income expectation, (ii) the general economic situation expectation, (iii) the unemployed expectation and (iv) the saving probability of households within the next 1 year. Real (manufacturing) trust index consists of existing (i) order and (ii) reserve amount, (iii) production volume, (iv) employment and (v) export order amount within the next 3 months, (vi) last 3 months order amount and (vii) fixed capital expenditure and (viii) market expenditures of the last 3 months. Service sector trust index is calculated through (i) employment status and (ii) the demand for services in the last three months period and (iii) the demand expectations in the next 3 months. Components of Retail trade sector trust index are as the following: (i) sales in the last 3 months, (ii) the level of current goods reserve, (iii) sale expectation for the next 3 months. Within the construction sector trust index there are the expectations of (i) the number of received order and (ii) the number of employees in the next 3 months.

All of the obtained indices here are prepared with the help of a survey study conducted by the related parties. While some of the components forming the indices reflect the existing employment volume, indices reflect especially the expectations of households or the business world representatives for the future.

3. The Role of Trust in Socio-Economic Life

Trust affects human behaviors in many fields with its different dimensions. As a result, the implementation of the legal regulations prepared by the public authorities for economic and social life is affected. For instance, the government recommended citizens to sell their foreign exchanges due to the excessive foreign exchange rate volatility happened in Turkey in the second half of 2018. In early days of the campaign a large number of people sold their foreign exchanges. However, there was an increase in foreign exchange deposits in banks in the following weeks. Citizens purchased foreign exchanges instead of selling in the following weeks. This campaign was unsuccessful because economic trust of individuals decreased.

Multinational high trust leads to the redistribution of income from rich countries to poor countries. Countries with high trust have higher social assistance-transfer-payments, more expenditure on education and generally a larger public sector size. These countries also have open market economies and especially better management. For that reason, there are less corruption, lower bureaucracy and more efficient legal system in these countries (Uslaner, 2008).

3.1- Finance ve Financial Markets

Protecting the right of investors and financial institutions mutually in financial markets, guaranteeing the contracts, and less fraudulent transactions increase the trust among investors, companies and financial intermediaries in a country and facilitate the transactions. This decreases the transaction costs in financial system and increases the fund flow rate and the fund amount in markets. As a result, financial markets develop (Fukuyama, 1995). Development in financial markets increase the production and domestic income because it leads to an increase in capital as a production factor. An economic management that desires to increase savings and security investments in financial markets should provide an environment where investors can invest in trust. Components of financial markets are legislative regulations, regulatory and supervisory agencies, stockbrokers and banks, companies and investors. Developing the trust relationships among these units provides a common interest for all of them.

3.2- Economic Life

As it is known, the increase in production and economic growth is ensured with labor, natural resources and the use of capital components. These components are not competent to explain the economic growth due to crisis and similar reasons in some periods. In this cases social trust representing the social capital gets involved as an explanatory factor (Özcan and Zeren, 2013). Whiteley (2000) attributes the effect of trust on economic performance to the decrease in agency problem and negative externalities besides the decrease in transaction costs. The conducted academic studies (Özcan and Zeren, 2013; Whiteley, 2000) indicate that social trust level of countries has a positive effect on economic development.

It is also observed that economic trust indices have an effect on economic developments (Korkmaz and Çevik, 2009; Arısoy, 2012). Arısoy (2012) determined that consumer trust index affected consumption expenditures and real (manufacturing) sector trust index affected industrial production and stock market index in Turkey between 2005 and 2012. In addition, Korkmaz and Çevik (2009) found a bi-directional causality between economic trust index and ISE100 index in Turkey. However, Vurur and Diler (2018) found unidirectional causality between real (manufacturing) sector trust index and BIST-100 index for 2012-2017 term and the BIST-100 yield index affects the real (manufacturing) sector trust index.

The people with positive expectations for the future tend to increase their expenditures. However, the increase in stock prices may increase customer trust. Jansen and Nahuis (2003) explain the reason as follows: Increasing stock prices will lead to a wealth effect and this increase the optimism in the market. The increase in stock prices will create the expectation for a better economy in the future. Therefore, asset prices will increase and behaviors of all consumers will be affected.

3.3- Marketing World

The value of a marketing activity for a purchaser is the difference between the benefits that the purchaser will have by consuming the product and the troubles (Kotler, 2000). Consumers always evaluate this difference and this evaluation also expresses the satisfaction level of the purchaser. One of the parameters included in benefit definition of the purchaser is trust (Aksoy, 2012). Customers' trust is a crucial factor for companies. The trust by customers in companies increases the market prestige of the company and this enables the company to become strong in the market (Lorena, 2018).

Mexhuani and Ribaj (2018) state that individuals' trust in financial system is low in Albania and this is a great obstacle for a sustainable economic development. According to Mexhuani and Ribaj (2018)'s study, individuals believe that sales representatives are not honest especially in insurance sector.

The classic marketing understanding has been replaced by mobile systems in time. Mobile systems have stood out especially in companies providing service. Especially in banking sector internet and mobile payment systems have accelerated and facilitated the commercial life. Besides these positive effects, internet-based transactions have brought an important problem. It is the security problems concerning bank accounts and payments. In response to such security problems, financial and commercial institutions have reduced the potential losses of the customers to a minimum level in time through the technological measures they have developed.

McCole (2002) listed the trust factors for electronic commercial companies as ten titles. These are availability, competence, coherence, fairness, integrity, loyalty, clarity, commitment and redemption. It is foreseen that customers' trust will be established and customers' interest to the company will increase when the company ensures these factors. Boz and Özen (2019), Usta (2005), Sathye (1999), Suh and Han (2002), Smith (2006) and Chung and Kwon (2009)'s studies indicate that higher trust has a positive effect on customers' preferences.

4. Conclusion

The purpose of this study is to assess the usage of the trust in different meanings especially in the fields of company administration, finance and economics and clarify the features of different usages. Another purpose is to discuss to what extent trust is effective in different fields in accordance with the literature. The obtained literature findings indicate that trust affects human behaviours in all of the fields. Strano and Kabli (2018) explain that European Union legislative regulations (such as Directive 2014/95/EU 2014) are effective in establishing trust by financial institutions. Financial reporting is a significant tool for companies to establish trust. In addition, the financial reports prepared as quality also have an important role in establishing socio-economic relationships between companies and their surroundings (Deegan and Unerman, 2011).

Trust should be taken into consideration by the state, all other economic units and households. Economic units should make their policies by considering the problems in all fields created by potential distrust. In order to create the trust atmosphere, we need legal infrastructure and judicial system to solve the disputes between individual-individual, individual-company, individual-state and company-state rapidly. Countries should check all the existing laws and meet the legislative regulation requirements in order to create a healthy socio-economic atmosphere. Hereafter, whether these laws are competent enough to meet the trust requirement of all the citizens or not should be monitored.

This study has some implications for academicians, individuals, private and public institutions, decisions and policies to be taken by central and local governmental units.

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