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INNOVATION - THE ROLE OF TRUST

Kornélia Lazányi*

*Obuda University, Keleti Faculty of Business and Management,
1084, Budapest, Tavaszmező st 15-17, Hungary*

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Abstract

Innovations and constant change are inevitable parts of our everyday lives. It is not only because advanced technologies are more effective, but mostly because in the 21st century more and more realise that scarce resources – among them the safe and clean environment as such - necessitate a paradigm change and intense innovation. This revolution is easily trackable in the organisational and (supra)national policies. However, innovation, and its necessary prerequisites are seldom investigated from the individuals' point of view.

It is easy to understand that inter-organisational trust is inevitable on both the consumers' and the providers' (innovators') side, however, it has to be made clear that an innovative organisation has to create a trusting environment within the company, in order to foster collaboration, the generation of new ideas, creativity and finally innovation.

The present paper endeavours to call attention to the notion of trust and its antecedents and consequences in relation to innovations. The aim is to provide assistance in understanding how to develop trust in each other and hence foster further innovations and development.

Keywords: trust, innovation, creativity, young adults

1. INTRODUCTION

Creativity – be it in products, services or organisational processes, are inherently riskier than ideas of incremental improvement. Unless the firm is willing to take on this risk, its innovation investment

will bring only incremental results. Nonetheless taking the risk of innovation is not an irrational decision, but is based on the rationale of trust. In case of most innovative products or technologies consumers and users are not aware of the technical, technological details of the given

* Corresponding author: lazanyi.kornelia@kgk.uni-obuda.hu

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innovations. Their decision to purchase is solely based on the hope that by their conscious purchase they contribute to a more sustainable economy/society. This hope is based on trust. Trust in the producers, and their promises to create a more developed, more efficient product or technology. Trust in something new to be better than the usual, normal, ordinary one. A trust so immense, that they are willing to change habits for the sake of it.

Trust however is not only prevalent on the costumers' side. Producers, service providers are also acting on the basis of trust when innovating. Changing patterns, technologies has its price. They are willing to invest (enthusiasm, energy and very often a lot of money), because they trust the potential customers to realise the value of their innovation. Hence, inter-organisational trust is inevitable on both sides for innovations and development.

Indeed, in line with the findings of the PriceWaterhouseCoopers (2013, 2014), trust is one of the key characteristics of innovative companies. Trust, however, is not only important from an internal perspective, but also from an external one. In line with the Edelman Trust Barometer's (2016) data at least half of the global population believes that the speed of innovation and changes – let them be technological, legal or social – is too fast; that business innovation is driven by the greed of the business owners rather than a desire of the greater good. Hence, trust is an important factor in creating and facilitating the acceptance of new innovations.

The same study explains, that 68% of people trusting a given company chose to buy its products and 59% recommended these products to their friends and colleagues. 41% of those trusting the

company have shared their positive opinions online and defended the company when/if it was needed. What is more, 37% was willing to pay more for goods and services offered by a company which they trusted. On the other hand, 48% of people decided not to buy products of companies they could not trust. 42% criticised the companies they did not trust, 26% shared negative online content in connection with them. 20% of the individuals in the research (N>33 000) even felt that through buying the product of a not trusted company they have paid more than they have wanted. According to a survey done by Watson Wyatt (2002), high-trust organizations outperform low-trust organizations by far. They create and deliver more value to their customers (through innovation, growth and improved collaboration), and with the help of this to all other stakeholders as well. High trust improves engagement, loyalty, communication, collaboration, relationships with all stakeholders and last but not least innovation.

Trust is a measurable economic factor (Fukuyama, 1995). Trust influences the speed and cost of relationships, interactions, and transactions. It also influences value – value to shareholders and value to customers (Jimenez et al., 2016). When organisational trust is low:

- disengagement of employees is prevalent; hence people don't give their all, when it comes to the organisational goals, or the organisation itself,
- fluctuation is high; hence the learning curve of employees has to be frequently re-started,
- customer retention rate is low; hence a strong (and costly) marketing apparatus is needed in order to maintain sales numbers,
- investor confidence decreases; hence

additional funds are hard to get and are costlier.

What is more, low trust organisations pay various sorts of ‘taxes’ (Covey, 2006), such as:

- unnecessary redundancy: duplication created and maintained to ensure control,
- excessive bureaucracy: cumbersome procedures and processes created to hinder deception,
- office politics: energy, time and resources dedicated to internal fights instead of innovation and creativity,
- dishonesty: fraudulent activities of employees disrupting the optimal functioning of the organisation.

2. UNDERSTANDING TRUST

In order to understand, how trust is essential for innovation, first of all, the very nature of trust has to be understood. In general, trust is used as the expression for the individual’s expectation that another person’s future action will be in line with his/her interest. However, the label “trust” is used to describe a variety of very different things not only in the everyday practice but in the scientific literature as well. Trust is used as a substitute for various phenomena, such as empathy, solidarity, reciprocity, respect, tolerance and fraternity. For this reason, in this chapter various approaches of the phenomenon of “trust” are presented, and a definition, which is able to help us understand its effect on innovation, will be created.

While scanning through the approaches of trust in the relevant international literature it has to be kept in mind that trust is both a noun and a verb. As a noun it refers to a certain state of being, which holds value for

those involved. However, trust as a noun is an outcome of trust the verb. As a verb trust is a collection of actions that create and inspire that state of trust. Hence, it is a competency that can, and should consciously be developed. Bunduchi (2013) for example recommends agents, with no prior history with each other to invest in and base trust on the others’ reputation, since it can be an adequate proxy for others trust in the given agent.

3. TRUST AS SOCIAL CAPITAL

Entrepreneurs are creative individuals. They create new things through innovation, while accepting the innate risk of novelty. Nonetheless, the existence and success of the innovations are strongly dependent on numerous factors within their environment. Hence, every innovation - is socially embedded. For this very reason, it is imperative for someone who intends to innovate, to have numerous and divers social contacts (Anderson et al., 2005). However, the quantity is not necessarily quality as well at the very same time. In order to be able to utilise one’s contacts and their support, one has to be able to trust his/her peers. For a company to be operating on the long run, and for employees to take part in the operations a certain level of trust is inevitable. trust-based work contracts initially. The results show that firms that adopt such contracts tend to be 12 to 15% more likely to improve products and 6 to 7% more likely to undertake process innovation. According to a study by Godart et al. (2016) trust-based work conditions – when employees are not constantly monitored, but rather trusted to do the right thing - tend to foster product improvement processes by 12-15% and the willingness to

undertake process innovation by 6-7%. The innovation process on the other hand requires a great amount of trust. In line with Cheung et al. (2016) findings, motivated information processing, knowledge sharing and subsequent team innovation does not occur, when team members do not have at least a medium level of trust among them. Lacking it would mean restraining the company and its operations to no or only incremental innovation. Lack of trust also influences inter-organisational relations, hence can foster or impeded innovation where companies of a supply chain could create something new and of worth with joint efforts (Thome et al., 2014; Li & Zhang, 2015; Zhou et al., 2016).

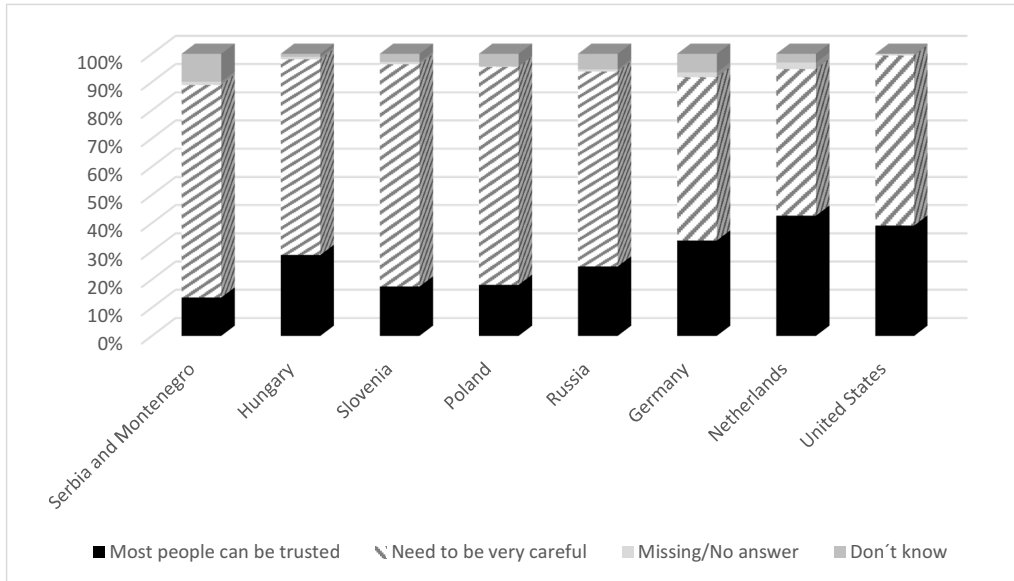
Trust is widely perceived as a proxy indicator of social capital. Trust describes the quality of people's relations and interactions, on a greater scale the relationships and their strength or fragility within a given community or the whole society. Accordingly, high level of trust is considered to be boost economic growth and social well-being. In line with this approach, according to many researchers (Arrow (1972, 1974), Luhmann (1979, 1988), Dasgupta (1988), Gambetta (2000), Fukuyama (1995) Knack (2003) and Knack and Keefer (1997)) trust, or the lack of it influences an economy's or a nation's competitiveness.

According to the school of sociology of rational choice (among others Coleman (1988) and Coleman and Hempel (1990)), trust and through it social capital allows individuals to cooperate with each other and to form bonds, associations. Fukuyama (1995) by further developing this approach stressed that the inclination of people toward trust and civic associations is rooted in a shared culture, the cultural dimension of social capital. He defines trust as the

expectation that prevails in a community when others behave in predictable, open and co-operative ways.

The most extreme viewpoint within the school is that of Paldam and Svendsen (2000) who, instead using trust as a proxy for social capital, define social capital as the level of trust within a group – which can even be the whole society if needed. Their approach, where trust is the best indicator of social capital is widely used first of all because its simplicity. According to the World Values Survey's Wave 5: 2005-2009 data Hungary is quite poor on social capital (only 28.7% of the population trusting each other), but for the region of Serbia and Montenegro is even worse off with its average trust level of 13.6% (for details see Figure 1). Unfortunately, neither Hungary, nor Serbia, or the region of Serbia and Montenegro has been involved in the World Values Survey Wave 6: 2010-2014, hence there is no precise information about how high the trust level in Serbia as a country is, or whether the level of trust of people living in the selected regions has changed.

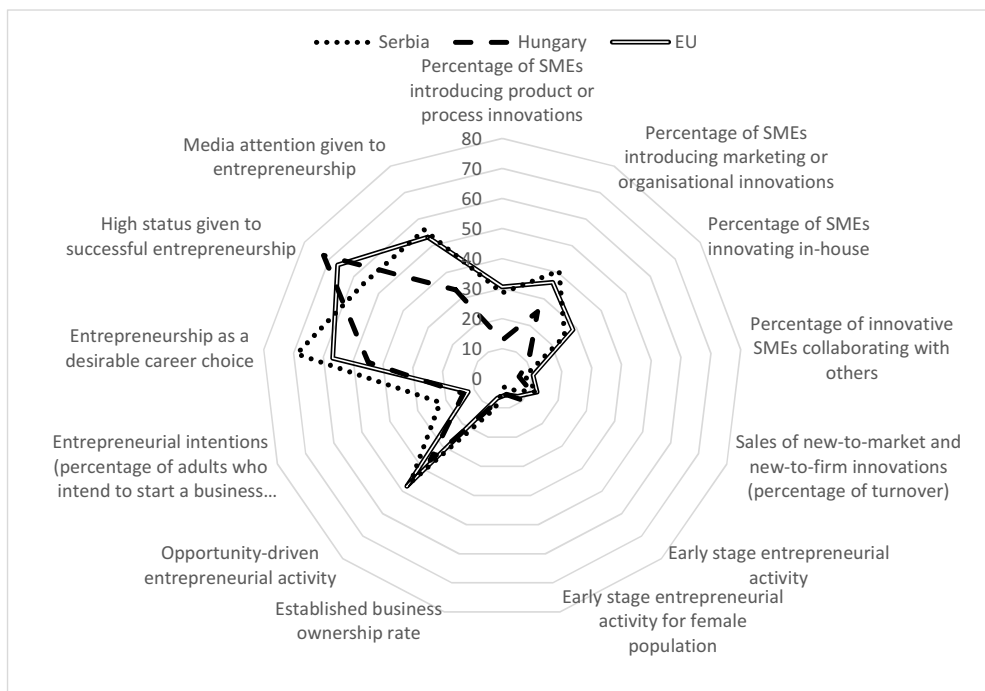
In line with these data, social capital, or better to phrase it in another way – the lack of it – can create a massive obstacle in the way of the economic development and innovativity of both Hungary and Serbia. As the SBA's data (SBA Factsheet –Serbia, Hungary, 2016) show, there is indeed a great lagging behind, when it comes to entrepreneurial and innovative mindset of people. Compared to the EU average, Serbian people scored significantly lower on dimensions such as “Early stage entrepreneurial activity”; “Early stage entrepreneurial activity for female population”; “Established business ownership rate”; on the other hand, Hungarians on factors, such as “Percentage



Source: World Values Survey - Wave 5: 2005-2009 (<http://www.worldvaluessurvey.org/>)

Figure 1. Trust around the world

of SMEs introducing product or process innovations”; “Percentage of innovative SMEs collaborating with others” introducing marketing or organisational innovations”; “Percentage of SMEs innovating in-house” (for further details, please see Figure 2). The data presented in diagram 1 and 2



Source: SBA Factsheet –Serbia, Hungary, 2016

Figure 2. Entrepreneurial factors – Serbia and Hungary in the light of the EU average

however imply that trust, although in general it is a proxy for social capital and helps us understand interpersonal relations and processes based on them, is not a phenomenon easily captured and measured. What is more, trust, and the abundance thereof influences people and economies in a different way. Hence, it is important to explore, how can trust be defined in interpersonal relations.

4. TRUST AS A RELATION OF INDIVIDUALS

While trust on the collective level is regarded as a phenomenon that enables collective actions and improves social relations (Freel, 2000; Davis, 2016), on the individual level, the actual or potential benefits of trust, and the consecutive formal and informal ties are emphasised (Burt, 2002). Interpersonal trust is often described as one of the personal relationships like friendship, love and kinship. Most definitions of trust in international literature are based on the expectations of, and confidence in that others will act as they are expected. Cook et al. (2004) conceptualises the terms of trust as a relationship of A (the trustor) and B (the trustee), where “A trusts B to do X”. This general formula emphasises that trust can be a function of a set of behaviours, and can vanish, when searched for out of the scope of the related situations (Kohn, 2009).

Along these lines, Serageldin and Dasgupta (2001) define trust as the expectation of the individual about the action of another person that affects his/her decisions. Gambetta (2000) also approaching trust from a decision theory framework introduced the notion of subjective

probability while trying to capture the essence of trust. According to his understanding trust is the subjective probability a person associates with the scenario that another person would perform a particular action. In this sense trust is a kind of preliminary assessment that influences the individual’s actions. Trust, however is not only important prior to a decision, but often serves as a proxy instead of an accurate measurement one wouldn’t have the time or the resources for.

Yet, if it comes to measuring trust, Williamson (1993) regards trust, and trusting behaviour as a calculative response of the individual. According to his understanding each action of the individual is influenced by an incentive structure, where the incentives contain material, social and psychological rewards. The monitoring and assessment of others actions is also a key element of Granovetter’s (2005) concept of trust.

In Coleman’s (1990) perspective of trust, time is also a key element. According to his concept, individuals do not act independently of each other but develop trust through continuous interactions. Putnam (2000) on the other hand distinguishes thick trust – which is based on experiences embedded in personal relationships with kin and friends, and hence is not a function of time - and thin trust, which is based on the trustee’s reputation, norms and signals - and this way is developed in time. Fukuyama (1995), using this terminology labelled societies on the basis of the general form of interpersonal trust. According to his understanding in high-trust societies trust extends beyond the circle of kinship, while in low-trust societies trust is confined to blood relatives.

Trust as an interpersonal relation describes a mutual understanding, where the

trustor and the trustee develop shared values that enable them to communicate more openly and solve conflicts in a collaborative manner. This common language and the value set it is based on however, has to be created. This – especially in case of thin trust – has to be consciously created or needs time to develop on its own.

For organisations it is especially important to create and maintain an organisational culture of trust. In a trusting organisation – where the organisational members trust their peers and superiors to take all ideas seriously rather than criticise them - novel, creative ideas are embraced and employees are supported and promoted for generating them. On the other hand, without trust employees will stick to their everyday routines not to be reprimanded or laughed at, and this lack of creativity and improvement would restrict organisational innovations. Helliwell and Wang (2001) phrases this relation slightly differently. Trust reduces the costs of dealing with uncertainty and risk, and hence enables the individual to face some more of them. However, this relation is only taking effect, if the trust of the individual is matched by trustworthy behaviour of the other party.

The relation of trustor and trustee, however, is not only applicable for interpersonal relations. It also applies to the relation of the customers (as trustors) and the goods/services a company is providing, or the organisation itself (as trustee). In case of most innovative products and technologies consumers and users are not aware of the technical, technological details of the given innovations. Their decision to purchase is solely based on the hope that by their conscious purchase they either buy smart and/or contribute to a more sustainable economy/society. This hope is (based on)

trust. Hence, developing trust and its antecedents is not only a compulsory task of an organisation towards its employees, but also towards its other stakeholders. What is more, a trusting relation of the investors/owners and the company is also a great help when it comes to innovation and creating the financial basis of R&D. Trust reducing the perceived costs of uncertainty and its risk encourages investors to decide for innovation against safe bets based on past experience and projective strategy.

5. RESEARCH METHOD AND RESULTS

As already presented above, there are various organisational benefits of trusting relations, such as enhanced cooperation, organisational citizenship behaviour, increased spontaneous openness among organisational members, easier change management and faster/smoothier organisational learning, but first of all a higher inclination toward innovation.

While present paper is a part of a long term research on trust supported through the New National Excellence Program of the Ministry of Human Capacities, the data presented below are not representative of the whole Hungarian population, are only indicative about the young (19-25 years old) higher educational students and graduates with at least 6 months of work experience. The aim of selecting this special subset was to explore the behaviour of those who supposedly are, or will be the change agents within their (future) companies and have the duty to adapt their companies to the ever changing environmental expectations, to innovate.

The research was executed through an

online questionnaire. The sample has been gathered with a snowball methodology, and has started from students (with the required amount of working experience) of Óbuda University. The members of the preliminary sample were requested to forward the questionnaire to peers, who they know to fit the requirements. Finally, 269 questionnaires have been gathered, 251 of which had fit the research requirements. Unfortunately, only 65 of them were females, which harms the representativity of the sample. Hence results presented below are rather indicative, and are yet to be further investigated.

This underrepresentation of female respondents in the sample might be due to their unwillingness to answer personal questions, but also due to them not matching the requirements. (All 18 excluded have been females, but of a higher age group.)

The average age of the respondents was 21.62 (Std. Dev.: 1.571). As it is clearly understandable owing to the sampling method the majority of the respondents were still studying. 157 had part time jobs and 81 full time jobs, 13 of them were not employed at the time of the research.

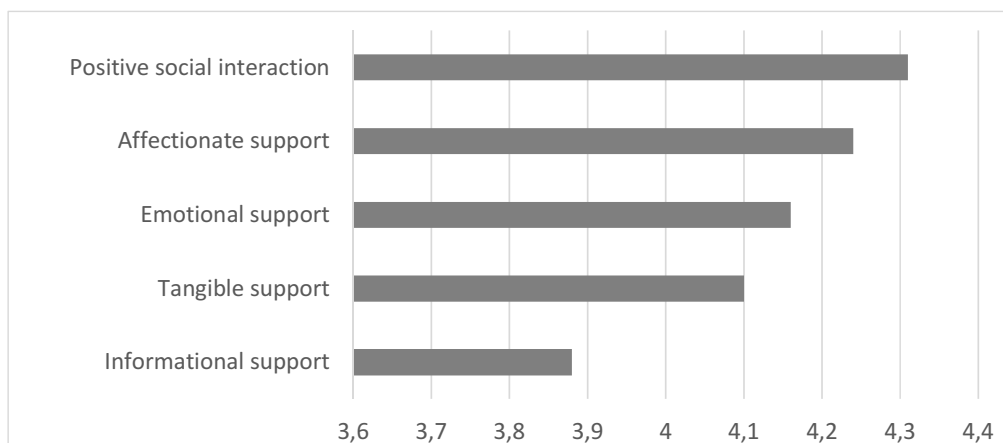
Most of the respondents were not living alone. More than half of them lived with

their family (N=131.) Some of them were living with their spouses (N=39), 12 of them with friends, and only less than 30% (N=69) alone - though they most probably all kept contact with family members owing to their young age.

Of the measured 195 variables present paper focuses on those, which are connected to intra-organisational trust – superior to subordinate, subordinate to superior or peer to peer relations. Two proxy variables of trust – general trust and social embeddedness - however have also been addressed.

As already described in the literature review part, trust is not only a noun, but a verb as well. It is a competency, which can be developed by the individual (organisation) and can be easily approximated by the social embeddedness as an aggregate variable. In present research, social embeddedness has been explored through 25 situative questions exploring various dimensions of social support, namely affectionate, emotional, tangible and informational support, along with positive social interactions.

As Figure 3. displays, respondents experienced high prevalence and good accessibility of positive social support rating



Source: own research

Figure 3. Perceived availability of various forms of social support

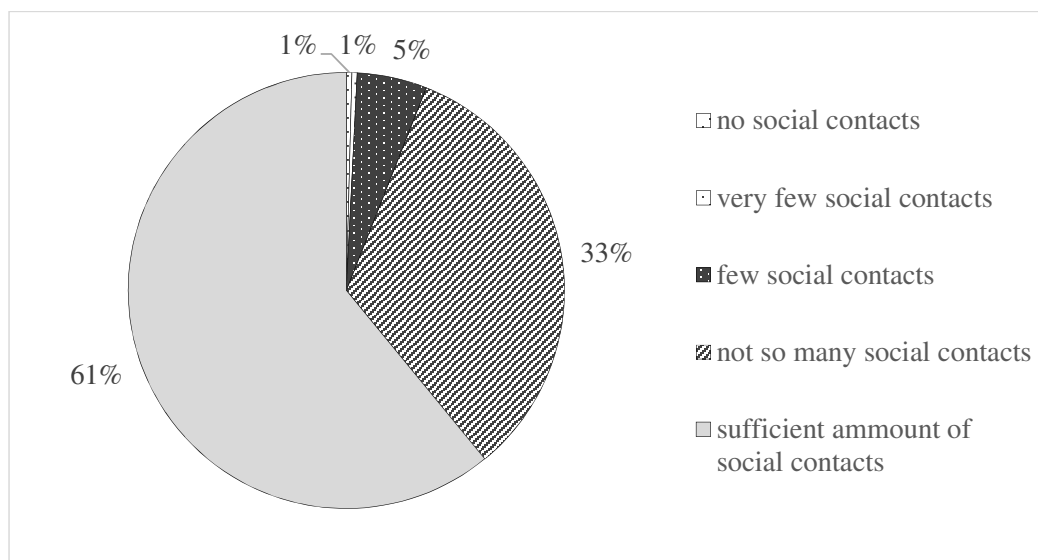
it as an average of 4.31 (Std. Dev.: 1.164) on a five-point Likert scale. Informational and tangible support on the other hand were not available for the participants of the research. The relative shortage (compared to the emotive elements of social support) is however does not mean low averages. Informational support with its average level of 3.88 (Std.Dev.: 1.687) can still be considered a good situation.

Accordingly, around two third of the respondents have adequate level of social embeddedness, hence possess the necessary level of interpersonal trust, however one third is rather mistrusting, while two of the respondents did/could not trust at all. The average result was on a 1-100 scale 82.733 (Std. Dev.: 13.377), which is not a bad situation concerning the individualistic nature of the Hungarian culture (the distribution of respondents based on their social embeddedness is displayed on Figure 4).

With the help of 80 situative questions, the trust/confidence in various actors has also been measured. As displayed on Figure

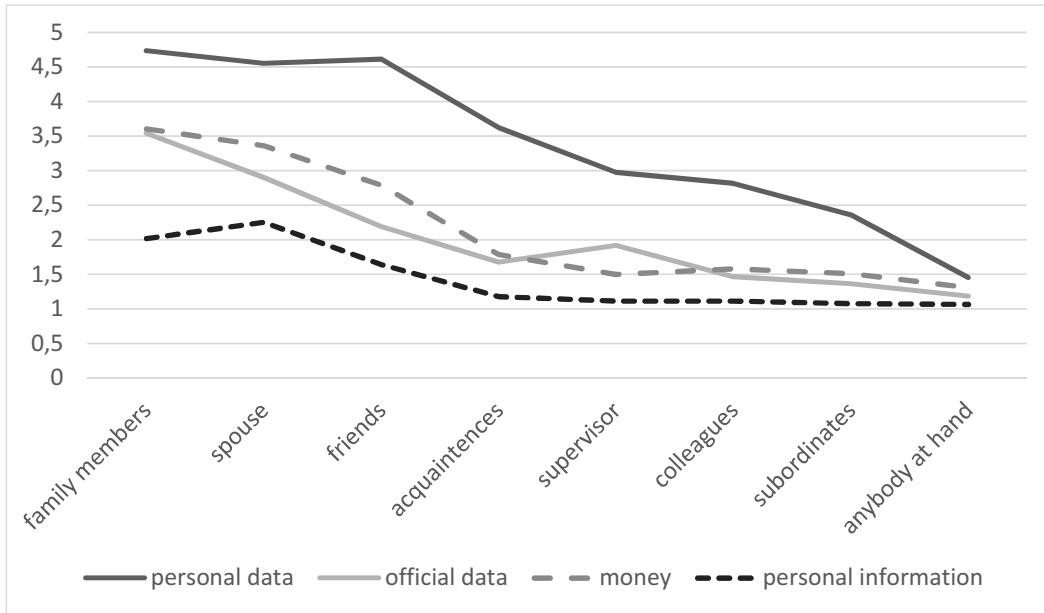
5. young adolescents tend to trust their family members and private contacts more than their official ones. This may lay either in their young age, or their relative short experience with employment (the selection criteria for the respondents being not less than 6 months of work experience). Interestingly, even acquaintances receive higher level of trust than immediate supervisors or co-workers. The only difference has been official data, where respondents considered their managers as someone who should be confided in with those kinds of data.

As displayed in Figure 5. Young adults in the sample considered personal information (such as to grant access to their student administration surface, their web2, or email accounts) the most private, most confidential pieces of information. Even more so than access to their money or credit cards (with PIN). Interestingly, they are more willing to share personal data, such as mobile number or address, than their official data, such as health-care security number, personal ID number or tax ID (data which are not so easy



Source: own research

Figure 4. The distribution of respondents based on their social embeddedness



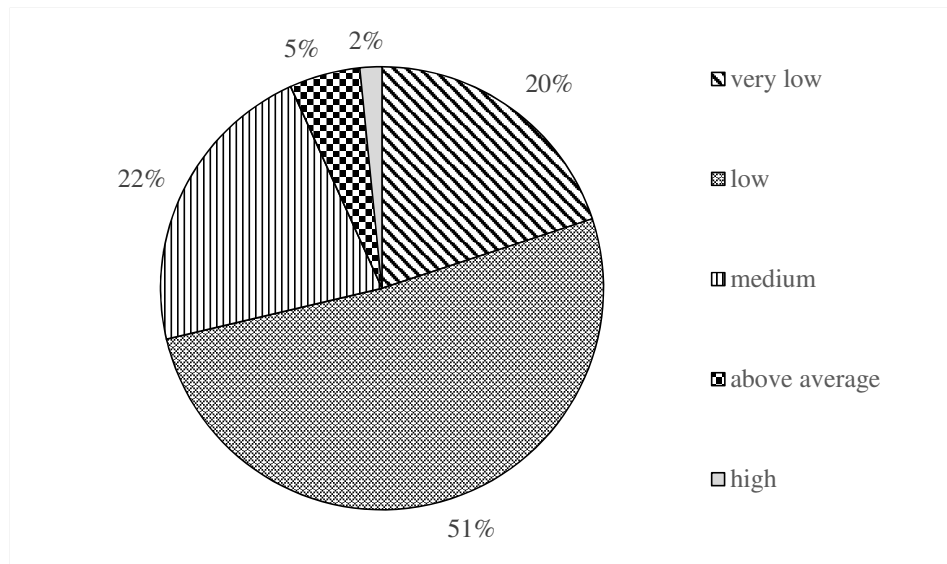
Source: own research

Figure 5. Confidence of respondents connected to various agents and data

to abuse, contrarily to personal data).

General trust as a variable has been calculated as an indicator of acceptance of dependency and willingness to do so from an array of questions regarding everyday behaviour towards various actors. According to the research results even young

adolescents with mostly sufficient social embeddedness are rather mistrusting. The average result on a 0-250 scale was 85 (Std. Dev.: 43,178) which is in line with the World Value Survey’s findings. More detailed information is displayed on Figure 6.



Source: own research

Figure 6. General level of trust of the respondents

6. SUMMARY AND CONCLUSION

Although certain level of distrust is functional, when dealing with the business environment and abusive market and political actions, however, trust is an inevitable part of the economy, and especially of innovation for several reasons. Trust is the basis of social support, and hence influences the embeddedness of the entrepreneurs and their companies, as well as their access to resources. The higher the level of trust within a society is, the more risk taking and innovative the people are.

Trust, as an interpersonal phenomenon also lowers transactions costs and diminishes the need to monitor the other's - let them be co-workers, suppliers or costumers - behaviour. Owing to this energy and resources can be dedicated to research and development and can serve the long-term goals of the companies involved.

People in trusting relations are more prone to create and join various kinds of cooperation, are open to communication and are better at conflict management. Hence trust makes those who trust better in people skills and more effective in their everyday (work) life.

However, trust is not something that can be turned on and off on a whim. To develop trust one needs time, and constant positive feed-back from those trusted, hence trust is generated by a collective (or on a greater scale the society itself). In order to reap innovation and other positive externalities of trust, companies (and their leaders) should invest in creating a trusting environment.

As presented in the paper, the research on young adolescents with at least 6 months of work experience ended with twofold results. On the one hand, young adolescents have sufficient amount of social support, hence

they are able to trust and create (maintain) a sufficient social supportive belt, which is imperative for their private and business life and future. The respondents – despite the non-trusting nature of the Hungarians were trusting on an average extent. Which could cause them to open up, share their creative ideas, be different and out of the box more easily.

However, on the other hand, they even confide in their loose private contacts (acquaintances) more, than in their work contact – their immediate supervisors included. With this lack of trust, it is very hard for them to ask for guidance, or share information. It is almost impossible in such a distrusting environment to innovate and to accept the high potentiality of failure embedded in the process.

Hence, it is important for companies that strive to reap business success to invest in generating trust among employees. It is inevitable not only on a group level, with team buildings and social programs, but between subordinate and supervisor as well, so that the two way communication between the two hierarchical levels can be started and the innovative spirit of the young entrants could be put to work.

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ИНОВАЦИЈА – УЛОГА ПОВЕРЕЊА

Kornélia Lazányi

Извод

Иновације и перманентне промене су неизбежан део нашег свакодневног живота. То није само зато што су напредне технологије постале много ефикасније, већ углавном зато што у 21. веку све више и више људи схвата да ограничени ресурси – међу којима је и безбедно и чисто окружење као такво – изискују промену парадигми и интензивне иновације. Те промене лако је пратити у организацијским и (над)националним политикама. Међутим, иновације, као и предуслови за њихово успешно спровођење, ретко су истраживани са становишта појединца. Лако је уочити да је поверење унутар организације обавезно, како од стране корисника, тако и од стране пружаоца услуга (иноватора), па ипак, потребно је нагласити и да иновативна организација мора да унутар компаније креира окружење у коме постоји међусобно поверење, у циљу подстицања сарадње, генерисања нових идеја, креативности, и коначно, иновативности.

Овај рад настоји да нагласи поимање поверења, као и последице које оно има у односу на иновације. Циљ овог рада је да пружи помоћ у разумевању начина на који се може развити међусобно поверење, и да се на тај начин подстакну даље иновације и развој.

Кључне речи: Поверење, иновације, креативност, омладина

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