

MANAGEMENT TRUST, ORGANIZATIONAL TRUST, AND ORGANIZATIONAL PERFORMANCE: ADVANCING AND MEASURING A THEORETICAL MODEL

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ABSTRACT

The purpose of this study was to propose a theoretical model and empirically measure whether trust impacts organizational performance. This study focused on three constructs: management trust (MT); organizational trust (OT); and organizational performance (OP). Specifically, the results of this study determined whether management trust (MT) significantly and positively contributes to organizational trust (OT) and whether organizational trust (OT) significantly and positively contributes to organizational performance (OP). Based on the findings, recommendations were made for building and sustaining a culture that will lead to improved organizational performance).

KEYWORDS

trust, organizational trust, management trust, organizational performance.

Introduction

A number of studies have established the importance of trust as a fundamental requirement for social integration and democracy. Trust has also emerged as a central construct in a wide range of management studies including those focusing on performance [1–5]. In organizations, trust has been demonstrated to be an important predictor of outcomes such as organizational commitment [6] and employee loyalty [7].

In the present study a theoretical model is advanced to determine whether management trust (MT) significantly and positively contributes to organizational trust (OT) and whether organizational trust (OT) significantly and positively contributes to organizational performance (OP). This study used a sample from one province in Poland. Based on the findings, recommendations were made for building

trust-based culture that will lead to improved organizational performance.

The concept of trust

There are a lot of definitions of trust especially in the disciplines of philosophy, psychology, sociology and economics. According to Herzberg [8] trusting another person means having a trusting attitude towards the other person. Thus, trust is implicit, not conditional and always rational. Philosophers emphasize a trusting attitude, often subconscious, as being a part of the basic conduct of life.

Gibb [9], a psychologist, theorized that trust is instinctive and as a feeling, it is comparable to love. Trust in everyday life is a mix of feelings and rational thinking. Personality psychologists such as Wrightsman [10] and Rotter [11] view trust as a personali-

ty trait that reflects the general expectations of the trustworthiness of others. These expectations are relatively stable dispositional characteristics that depend on personal experiences and previous socialization. Whereas psychologists define trust in terms of the tendency to hold positive expectations of the intentions or behavior of others [11], sociologists view trust as either having to do with the socially embedded properties of relationships among people [12] or with the characteristics of the institutional environment [13].

The economic approach to trust is often calculative, emphasizing its risk-decreasing nature, and enhancing the prediction or expectations of the other actor's future behavior. According to Ganesan [14], trust is the willingness to rely on an exchange partner in whom one has confidence. Aulakh et al. [15] insist that trust is the degree of confidence the individual partners have in the reliability and integrity of each other. Norman [16] presents a resource-based view and insists that trust is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action that is important to the truster, irrespective of the ability to monitor or control the other party. According to Young-Ybarra, and Wiersema [17] trust is based on three components: dependability (expectation that the partner will act in the alliance's best interests), predictability (consistency of actions), and faith (partner will not act opportunistically).

The following is derived from the above definitions in the literature:

Trust is generally expressed as an optimistic expectation on the behavior of a person;

Trust generally occurs under the condition of vulnerability to the interests of the individual;

Trust depends upon the behavior of other people;

Trust is generally associated with willing, not forced, cooperation and with the benefits, resulting from that cooperation;

Trust is something that we find hard to put into words, something we can more easily define by its absence than its presence.

Management and organizational trust

The majority of research on trust focuses on supervisors, managers, or work-group leaders [6, 18–20].

Researchers [6, 21] have noticed that when employees have trust in the top manager, their organizational commitment and organizational identity also improve, which in turn causes employees to work

harder and spend more time and energy in their jobs. Supervisors' actions and behaviors, are essential in determining the subordinates' attitudes and providing a foundation for trust [22].

Davis et al. [23], Morgan and Zeffane [24], and Connell et al. [25] studied the effect of an employee's trust in top management on the employee's job performance. They found that the ideas of fairness and being human-oriented based on a company's strategies and regulations all have an important impact upon an employee's job satisfaction and organizational commitment. When supervisors express concern for their employees' well being, help them with career development, and value their work, they signal to their subordinates that they are interested in a close and social exchange relationship. To equalize or ensure a balance in their exchanges, employees will feel obligated to reciprocate the good deeds and goodwill of the supervisor. By discharging their obligations for services provided, they demonstrate their trustworthiness and the gradual expansion of mutual services [26]. With high levels of trust in the leader, followers typically exert stronger efforts to finish their work tasks on time and are more likely to engage in behaviors that help the organization even when it is not their specified role to engage in those behaviors [27].

There are two types of trust, one of which is exchange-based or relational in nature and the other character-based or cognitive in nature [4, 28–30]. Affective trust refers to the trust which is based on emotional ties between two parties in a relationship that results from the mutual exhibition of care and concern [4, 28]. Affective trust is a good proxy for the process of social exchange, given it measures the extent to which both parties in a relationship engage in the reciprocated exchange of care and concern [28, 31]. Cognitive trust refers to that which is based on an instrumental evaluation by the follower of the salient personal characteristics of the leader such as their integrity, competence, reliability and dependability [28, 31]. Cognitive trust influences employee attitudes by making them feel more confident in their supervisor's ability and qualifications to guide their task performance [3]. According to Zhu et al. [32] this should lead employees to judge their work experiences in a favorable light, and encourage them to engage in behavior that benefits the organization.

Wayne, Shore, and Liden [33] suggested that employees often generalize their experiences with their supervisors in the organization. Indeed, it has been observed that employees' trust in supervisors is associated with their trust in the organization [34]. As

their trust in the supervisor increases, their favorable perceptions of the organization also increase [35]. Trust relationships further enable people to make emotional investments, because they believe in the intrinsic virtue of such relationships and that these sentiments are reciprocated [36]. Trust in the leader has been widely used by researchers to measure the quality of social exchange between the leader and follower [37].

Even though trust in the leader has been found to correlate with organizational trust [6], the antecedents of trust in the organization are different from those of trust in the leader [20]. Findings from some studies suggest that the insecure future of the organization, inadequate working conditions, and poor treatment [38] or job insecurity [39] could lead to employees' distrust in the organization. Whiten-er et al. [22] suggested that organizational factors such as structure, human resource policies and procedures, and organizational culture would affect employees' perceptions of trust.

Research has revealed that the trust of employ-ees, is linked to their working attitudes and behav-iors [6, 28, 40]. Trust in organizations involves employees' willingness to be vulnerable to their orga-nization's actions. This willingness can be rendered only when an organization clearly communicates its actions to its employees through informal and formal networks. An important source of information is the employee's immediate social environment, which largely comprises co-workers.

According to Zucker [13] organizational trust can stem from the owner's personality (small firms) or from strongly centralized decision structure and or-ganizational culture, which makes the organization regularly interact in a particular, "trusting" way. Barney and Hansen [41] note that the organiza-tion's values and beliefs may be supported by inter-nal reward and compensation systems, together with decision-making systems reflecting culture. This organizational trust can also be called routine trust, and it comes up especially in connection with long term, institutionalized relationships. In organi-zations there is also general trust at the company level, and that is based on a company's good repu-tation or resources.

Deming [42] stated that lack of trust in organiza-tion results in impairment of the entire system. Thus, organizational trust is mandatory for optimizing an organizational system because it can create a safe en-vironment and lubricate organizational functioning.

The focus of this study is to propose a theoretical model and empirically measure trust in organizations as it relates to organizational performance.

The proposed theoretical model

This paper is based on a study by Paliszkie-wicz, Koohang, and Nord [43] where the authors attempt-ed to empirically validate an instrument with three components: management trust (MT), organiza-tional trust (OT), and organizational performance (OP). The authors concluded that the three components, MT, OT, and OP, were empirically validated to be reliable and interpretable among their associated factors.

The present study uses the instrument from Pal-iszkiewicz, Koohang, and Nord [43] to build a theo-retical model that assumes 1) MT significantly and positively contributes to OT, and 2) OT significantly and positively contributes to OP (See Fig. 1).

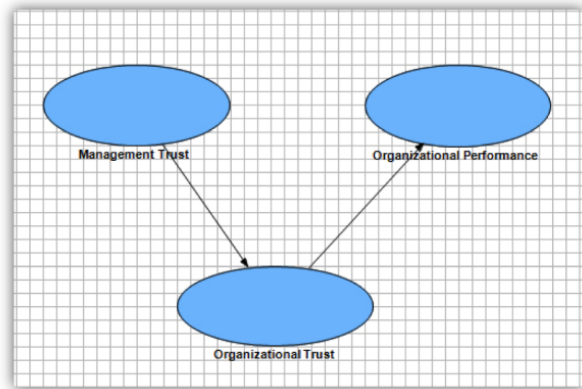


Fig. 1. The proposed theoretical model.

Based on the theoretical model, the following hy-potheses were stated:

H1: Management Trust (MT) significantly and positively contributes to Organizational Trust (OT).

H2: Organizational Trust (OT) significantly and positively contributes to Organizational Perfor-mance (OP).

Methodology

Instrument

The instrument used in the present study was based on an established scale that was originally designed by Paliszkie-wicz (44, 45). Paliszkie-wicz, Koohang, and Nord (2014) empirically validated the instrument using factor analysis. The authors report-ed that the items of the instrument loaded on the three components created the following constructs: management trust (MT), organizational trust (OT), and organizational performance (OP). The three

constructs with their associated factors are as follows:

Management Trust (MT)

- MT1. In dealing with people, one must always be careful.
- MT2. You should not trust other people until you get to know them well.
- MT3. Most people will lie to get what they want.
- MT4. People that wait for the opportunity to gain something for themselves are dishonest.
- MT5. You can only trust yourself.
- MT6. Contacts between the employees are mainly based on struggle and rivalry.
- MT7. Most people in your company keeps promises.
- MT8. I have confidence in my subordinates.

Organizational Trust (OT)

- OT1. There is atmosphere for honest cooperation among employees.
- OT2. Clear expectations connected with results and aims from all employees.
- OT3. Employees are willing to share knowledge.
- OT4. Employees openly admit and take responsibility for their mistakes.
- OT5. Employees avoid participating in gossip and unfair criticism of others.
- OT6. Employees are willing to take part in trainings.
- OT7. Periodic meetings take place between employees and the management.
- OT8. In general the work responsibilities are established and clear.
- OT9. The criteria of promotion are clear in every position.
- OT10. Evaluation of employees is fair.
- OT11. The relationship between employees is good.
- OT12. All employees are treated fairly.
- OT13. The interests of workers are taken care of.
- OT14. Team work is encouraged and preferred.
- OT15. Employees are encouraged to take part in decision-making.
- OT16. Companies communicate decisions that are made to the employees.
- OT17. Companies are concerned with improving work conditions for employees.
- OT18. Development of human resources is considered a measure of success.
- OT19. Operational efficiency, i.e., low cost production, keeping the schedule, etc., is considered a measure of success.
- OT20. Subordinates should be allowed to make decisions within defined limits.

Organizational Performance (OP)

- OP1. In comparison with the competitors, this company is more profitable.

OP2. In comparison with the competitors, this company has a larger market share.

OP3. In comparison with the competitors, this company is growing faster.

OP4. In comparison with the competitors, this company is more innovative.

OP5. In comparison with the competitors, this company is more successful.

OP6. In comparison with the competitors, this company has lower costs [43].

The measures of MT, OT, and OP integrated a Likert-type scale. For positively worded statements, the scale represented strongly agree = 5, agree = 4, neither agree nor disagree = 3, disagree = 2, and strongly disagree = 1. The opposite was used for negatively worded statements.

Participants and procedure

The same sample population that was used in the study by Paliszkiwicz, Koochang, & Nord, [43] was used in this study. The sample included 286 managers from upper, middle, and lower management from companies in Mazovia Province, Poland in 2009. These companies were selected by Forbes Journal as “best enterprises”.

Data analyses

Data were analyzed using the SmartPLS 2.0, a variance-based SEM structural equation modeling (SEM) software. SmartPLS 2.0 was used because it offers less sensitivity to a smaller sample size [46]. The analyses included convergence validity and discriminant validity to validate the theoretical model. Next, a structural model was used to assess the R² value of the dependent variable that points to the predictability of the theoretical model and the standardized path coefficients that signifies the strength of the contribution of the independent variables on the dependent variable [46]. Finally, the calculated T-Value determined the acceptance or rejection of the study’s hypotheses.

Results

Construct validity and discriminant validity

To achieve construct validity, Fornell and Larcker [47] stated that generally three criteria should be met: 1) the average variance extracted (AVE) for each construct should be greater than 0.50. AVE is the amount of variance captured by a construct or latent variable (LV) relative to the amount caused by measurement error; 2) all item factor loadings

should be significant and greater than 0.70. The loadings of items for a construct can fall below 0.70 if the loadings of other items for the same construct are high [46] and loadings are higher than the cutoff point of 0.4 [48] the composite reliability index for each construct should be greater than 0.80. These three criteria establish a satisfactory level of convergent validity.

In the initial analyses, the accepted AVE values were not reached. To reach the accepted AVE, the following indicators had to be removed: two indicators from MT, 10 indicators from OT, and 1 indicator for OP. This brought the AVE values to the accepted threshold level of 0.5. This then left 6 indicator items for MT, 10 indicator items for OT, and 5 indicator items for OP in the final model indicating that the LVs are deemed to show requisite convergent validity (see Table 1).

The indicators of the model were then established as follows:

Management Trust (MT)

MT1. In dealing with people, one must always be careful.

MT2. You should not trust other people until you get to know them well.

MT3. Most people will lie to get what they want.

MT4. People that wait for the opportunity to gain something for themselves are dishonest.

MT6. Contacts between the employees are mainly based on struggle and rivalry.

Organizational Trust (OT)

OT1. There is atmosphere for honest cooperation among employees.

OT2. Clear expectation connected with results and aims from all employees.

OT3. Employees are willing to share knowledge.

OT5. Employees avoid participating in gossip and

unfair criticism of others.

OT6. Employees are willing to take part in trainings.

OT7. Periodic meetings take place between employees and the management.

OT8. In general the work responsibilities are established and clear.

OT14. Team work is encouraged and preferred.

OT15. Employees are encouraged to take part in decision-making.

OT18. Development of human resources is considered a measure of success.

Organizational Performance (OP)

OP1. In comparison with the competitors, this company is more profitable.

OP2. In comparison with the competitors, this company has a larger market share.

OP3. In comparison with the competitors, this company is growing faster.

OP4. In comparison with the competitors, this company is more innovative.

OP5. In comparison with the competitors, this company is more successful.

The discriminant validity is established when the square root of AVE of a construct is greater than its correlations with all other constructs [47]. The square root of the AVE for each construct (MT, OT, & OP) was greater than its correlations with all other constructs indicating sufficient discriminant validity for the model. Table 1 shows the results of the test of reliability, convergence validity, discriminate validity, and standardized factor loading of the constructs.

Tables 1, 2, and 3 show the results of the test of reliability, convergence validity, discriminate validity, and standardized factor loading of the constructs. In addition Table 4 presents the factor cross loading for all constructs indicating that the items in each construct loaded much higher than their cross loadings.

Table 1
Results of Cronbach's Alpha, CR, AVE, and Square Root of AVE.

	Cronbach's Alpha	Composite reliability	AVE	Square root of AVE
Management trust	0.792671	0.858253	0.550983	0.742282
Organizational performance	0.876080	0.909570	0.668682	0.817729
Organizational trust	0.895765	0.914853	0.520594	0.721522

Table 2
Results of latent variable correlations.

	Management trust	Organizational performance	Organizational trust
Management Trust	1.000000		
Organizational Performance	0.242180	1.000000	
Organizational Trust	0.525739	0.358762	1.000000

Table 3
Results of standardized factor loadings of the constructs.

	Management trust	Organizational performance	Organizational trust	P-Value
MT001	0.756945			< .001
MT002	0.827092			< .001
MT003	0.653027			< .001
MT004	0.624103			< .001
MT005	0.825786			< .001
OP001		0.772789		< .001
OP002		0.776747		< .001
OP003		0.850882		< .001
OP004		0.790315		< .001
OP005		0.891219		< .001
OT001			0.758643	< .001
OT002			0.609830	< .001
OT003			0.774647	< .001
OT004			0.787098	< .001
OT005			0.718340	< .001
OT006			0.779701	< .001
OT007			0.651088	< .001
OT008			0.760598	< .001
OT009			0.765101	< .001
OT010			0.571971	< .001

Table 4
Results of factor cross loadings of the constructs.

	Management trust	Organizational performance	Organizational trust	P-Value
MT001	0.756945	0.146395	0.429509	< .001
MT002	0.827092	0.175081	0.358811	< .001
MT003	0.653027	0.221297	0.455905	< .001
MT004	0.624103	0.178204	0.306991	< .001
MT005	0.825786	0.164522	0.343586	< .001
OP001	0.206472	0.772789	0.210403	< .001
OP002	0.175390	0.776747	0.252546	< .001
OP003	0.164026	0.850882	0.320807	< .001
OP004	0.186728	0.790315	0.312953	< .001
OP005	0.257442	0.891219	0.338826	< .001
OT001	0.420054	0.196638	0.758643	< .001
OT002	0.289236	0.267987	0.609830	< .001
OT003	0.377008	0.282924	0.774647	< .001
OT004	0.451496	0.306425	0.787098	< .001
OT005	0.503933	0.233784	0.718340	< .001
OT006	0.355167	0.273737	0.779701	< .001
OT007	0.313844	0.246624	0.651088	< .001
OT008	0.341024	0.251945	0.760598	< .001
OT009	0.425642	0.201567	0.765101	< .001
OT010	0.241796	0.341174	0.571971	< .001

The structural model

The hypotheses were assessed by examining the parameters provided by the PLS structural model.

The R squared values for OT and OP as dependent variables were 28% and 13% respectively. R squared of the dependent variable of OT and OP indicated the predictability of the theoretical model. Falk &

Miller [49] stated that a minimum of 10% criterion should be achieved to make any meaningful interpretation.

The standardized path coefficients indicate the strength of the contribution of the independent variables on dependent variable [46]. The standardized path coefficients that represents the strength of the contribution of the independent variable on the dependent variable were $\beta_{H1} = 0.525739$ & $\beta_{H2} = 0.358762$. These results suggest that the theoretical model has substantive explanatory power.

Hypothesis 1 stated that management trust (MT) significantly and positively contributes to organizational trust (OT) was supported, T statistics = 7.284629 and $p < .001$. Similarly, hypothesis 2 stated that organizational trust (OT) significantly and positively contributes to organizational performance (OP) was supported, T statistics = 3.774345, and $p < .001$ (see Table 5).

Table 5
Structural path in the model.

	Sign	PLS Path coefficient	T-Value	P-Value
H2: Management Trust - > Organizational Performance	+	0.525739	7.284629	< .001
H3: Organizational Trust - > Organizational Performance	+	0.358762	3.774345	< .001

Discussion and conclusions

This paper advanced a theoretical model stating that 1) management trust (MT) significantly and positively contributes to organizational trust (OT) and 2) organizational trust OT significantly and positively contributes to organizational performance (OP). SmartPLS, a variance-based structural equation modeling (SEM) package was used to validate the measure and test the model.

Several indicators were removed from each construct to achieve the accepted AVE values. Consequently, all the criteria for satisfactory level of convergent validity were established. Criterion 1 – the AVEs for each construct were greater than 0.50; criterion 2 – the factor loadings of all constructs were significant and the factor cross loading for all items in each construct loaded much higher than their cross

loadings; and criterion 3 – the composite reliability index for each construct was greater than 0.80.

Next, the discriminant validity was established by assessing the square root of the AVE for each construct (MT, OT, & OP). The square root of the AVE for each construct was greater than its correlations with all other constructs showing sufficient discriminant validity for the model.

The Structural Model produced acceptable R squared values for organizational trust (OT) and organizational performance (OP) as dependent variables. Furthermore, the standardized path coefficients showed the strength of the contribution of the independent variable on the dependent variable (MT on OT and OT on OP) suggesting that the theoretical model had substantive explanatory power.

The structural model in this study supported the hypothesis that stated management trust (MT) significantly and positively contributed to organizational trust (OT). Furthermore, it supported the hypothesis that stated organizational trust (OT) significantly and positively contributed to organizational performance (OP).

The two most common targets of trust in the literature are interpersonal trust, and organizational trust [50, 51]. Interpersonal trust between managers and subordinates improves performance and productivity [52]. Moreover, interpersonal trust between managers and subordinates influences high organizational commitment and morale; and low turnover and absenteeism [53]. Improving behavior [4] and enhancing the quality of communication [54] are other positive characteristics when interpersonal trust between managers and subordinates are present.

Organizational trust, conversely, “... is a feeling of confidence and support in an employer... organizational trust refers to employee faith in corporate goal attainment and organizational leaders, and to the belief that ultimately, organizational action will prove beneficial for employees” [51].

The knowledge management literature refers to trust as a key element for successful knowledge management practices - knowledge creation, knowledge acquisition, knowledge codification, knowledge transfer, knowledge exchange and knowledge use [55–57].

If trust is the key element for the success of knowledge management practices, then significant and positive relationships should surface between management trust (MT) and organizational trust (OT) as is the case of the present study’s findings. Once this positive relationship is established, then positive organizational performance can be expected as the findings of this study reported.

Within an organization, a culture of trust can influence the organizational performance and organizational leaders have an important responsibility in building and sustaining the culture of trust among employees. To build and sustain a culture of trust, leaders must do what is in the best interest of others within the organization. Leaders should be grounded in values. They should lead through values, striving to see the big picture and the principles. They must incorporate the input of all employees in solving problems and making-decisions. Leaders must be authentic and have superior self-awareness. A leader should value and learn from conflicts. Moreover, leaders must constantly strive to build relationships by bringing people together to contribute to their growth, development, and productivity. They must grant power to people to innovate. Leaders must constantly reflect, seek feedback from others, inspire others, and find out how best they can serve and invest in employees. In summary, leadership characteristics shape the culture of trust within organizations and the trust can lead to organizational performance.

This study used a sample of convenience in one province in Poland. Future studies may include a larger random sample from diverse organizations throughout the world to enhance the generalizability of the results. Furthermore, a similar study comparing organizations of different sizes would determine whether there are differences in the theoretical model based on organizational size.

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