

INTERPERSONAL TRUST AND FORMAL CONTROLS IN HIERARCHICAL RELATIONSHIPS

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Abstract:

This paper examines the influence of the level of interpersonal trust between superior and subordinate managers on the control behaviour of the former. On the basis of a questionnaire survey and interviews of senior managers from business organisations in Sri Lanka, and a survey of managers in Beijing-China the study explores the control behaviour of superior managers when their trust in a subordinate is high or low. Sri Lanka and China, societies in which the dependence on interpersonal trust is believed to be high, were chosen for the study to maximise the effect of interpersonal trust.

The findings of this study indicate that a superior's high (low) trust in a subordinate is associated with a low (high) level of monitoring and a high (low) level of social interactions. The hypothesis that a superior's high (low) level of trust is associated with a low (high) level of reliance on formal control was supported only in the Sri Lankan sample. These findings are at least indicative of control behaviour of superior managers in Sri Lanka and China and possibly of other countries in Asia. An understanding of the trust-sensitive control behaviour of managers in this region is particularly important for designing and implementing effective control systems for international organizations operating in the region.

Key Words

INTERPERSONAL TRUST, HIERARCHICAL RELATIONSHIP, FORMAL CONTROL,
MONITORING

INTERPERSONAL TRUST AND FORMAL CONTROLS IN HIERARCHICAL RELATIONSHIPS

Trust has long been of interest to scholars for its relationship with control and effectiveness. From an economic perspective, trust has been recognised as the most efficient mechanism for successful economic transactions (Arrow, 1974, 1975; Williamson, 1993; Kollock, 1994; Lyons and Mehta, 1997). From a social perspective, trust has been presented as the first best control mechanism (Blau, 1964; Zucker, 1986; Leifer and Mills, 1996, Misztal, 1996). Early organisational scholars (e.g., Argyris, 1962; Likert, 1967; McGregor, 1967) considered trust to be an important hallmark of effective organizations (Dirks and Ferrin, 2001). Ouchi (1980) observed that organisational members must either be able to trust each other or to closely monitor each other. Trust has received a great deal of attention in the recent management literature. For example, three influential academic journals dedicated special issues to the topic of trust in organisational settings (see, the 2003 *Organization Science* special issue, the 2001 *Organization Studies* special issue and the 1998 *Academy of Management Review* special issue).

The pervasiveness of trust and distrust in the workplace is well documented in the literature (e.g., Kanter, 1977; Barber 1983; Hill 1992; Sitkin and Roth, 1993; Fox, 1974; Kramer, 1996, Kramer and Tyler, 1996, Whitner et al., 1998). The extant research focuses on how subordinates' trust in managers affect their (i.e., subordinates') perceptions, behaviour and job related outcomes (e.g., Ross, 1994, Fulk, Brief and Bair, 1985). However, according to our knowledge, research on the question of how managers' trust in subordinates may influence the managers' control behaviour (i.e., how the managers control subordinates when they trust and distrust) is extremely rare. This paper is addressed at this void.

Interpersonal trust has been observed to be much more important for smooth 'transactions' in Asian countries than in Western countries (Kollock, 1994). This condition can be attributed to societal, cultural and other contextual differences between these two traditions. Since the culture of Asian countries is collective, people are more likely to know each other, and depend more on each other on a personal basis. It has also been noted that in countries where formal 'systems' are not well established and dependable (i.e., where there is low 'systemic trust'), the role of interpersonal trust is much more prominent and significant (Luhmann, 1988). Systemic trust is relatively low in most Asian countries (Silin, 1976; Redding, 1990; Whitely, 1999). This paper reports the results of a study conducted in Sri Lanka and Peoples Republic of China (Beijing) to explore the relationship between senior managers' trust on subordinates and their (senior managers') control behaviours.

The remainder of the paper is divided into four sections. The next section reviews the literature on interpersonal trust and control within organizations. The following section outlines the main attributes of Sri Lankan and Chinese societies, and forms the hypotheses of the study. Section 4 describes the survey and interviews upon which the study is based. Section 5 summarises the results. The last section contains the study's conclusions, limitations and suggestions for further research.

TRUST AND CONTROL

Trust, an important phenomenon in human interaction, has been a subject of study in all disciplines that are concerned with human behaviour. Attempts to understand the nature of trust have resulted in many different conceptualisations and definitions of trust. They reflect the different 'world views' of the particular discipline. Personality theorists consider trust as a personality trait (Rotter, 1967, 1971). Economists tend to view trust as a rational calculative behaviour (Williamson 1993),

while sociologists as a socially embedded property of human relationships (Luhmann, 1979, 1988; Barber 1983; Lewis and Weigert, 1985; Coleman, 1990; Granovetter 1985). Social-psychologists view trust as an interpersonal cognitive and affective state that depends on personal attributes (Johnson-George and Swap 1982).

One common theme in most definitions is that trust involves taking risks. While trusting involves risk, trust enables people to take risks (McAllister, 1995; Porter, Lawler and Hackman, 1975). The notion of vulnerability is central in the definitions of trust employed by Mayer et al. (1995), Mishra (1996), Luhmann (1979), and Zand (1972). According to Luhmann (1979) a fundamental condition of trust is that it must be possible for the other party to abuse the trust. The theme of 'vulnerability' represents a common ground in interpersonal trust research (Bigley & Pearce 1998).

Superior-subordinate trust is an important form of interpersonal trust within hierarchical organisations (Kramer, 1996; Simmel, 1950). A number of empirical researchers have identified the conditions (attributes) of trust relevant to superior-subordinate relationships. Jennings' (1971) interviews of executives identified loyalty as the most important attribute of trust. The typical executive agreed with the definition that loyalty is an implicit promise from a subordinate not to harm the executive. Gabarro's (1978) interviews of corporation presidents and vice-presidents identified nine "bases" of trust. These were: integrity, motives, consistency of behaviour, openness, discreetness, functional/specific confidence, interpersonal competence, business sense, and judgment. Butler and Cantrell (1984) manipulated five of the trust conditions identified by Jennings (1971) and Gabarro (1978) in an experiment involving undergraduate management students and ranked the conditions for managers' trust in their hypothetical subordinates in the following order of importance: competence, integrity, consistency, loyalty and openness. Mayer et al's (1995) model consists of three attributes of the trustee: ability, benevolence and integrity. Their model indicates that when a subordinate's

attributes are trustworthy, superiors are willing to take risks and to be vulnerable to such a subordinate.

The literature on organisational trust points to several trusting behaviours on the part of the superiors: sharing of control and delegation of authority; delegation of risky tasks (Schoorman et al., 1996); regular interactions and communication; demonstration of concern (Whitener et al. 1998); less inclination toward supervision and enforcement (Lewin and Stephens 1994); and less use of formal contracts (Larson, 1992). A manager's low trust toward a subordinate is likely to cause increased monitoring and defensive behaviour (McAllister, 1995), and a higher degree of centralisation and formalisation (Creed & Miles 1996). One of the ways in which superiors handle the risk exposure arising from the probable opportunistic behaviour of subordinates is by increased monitoring. In contrast, because of shared expectations, trust induces desirable behavior and reduces the need for monitoring (Ouchi, 1980; Madhok, 1995).

Trust has been observed to be associated with low monitoring (Lewicki, McAllister and Bies, 1998). Monitoring is generally viewed as anathema of trust. Any increase in monitoring is likely to be interpreted by subordinates as a sign of distrust on the part of superiors (Frey 1993). Hence, in the case of trustworthy subordinates, a superior manager is likely to reduce monitoring.

According to Argyris (1953) control mechanisms in general imply that one party does not trust the other. Formal controls serve to influence subordinate's behaviour leading to desired outcomes by delineating clear boundaries. For example, prescribing of specific performance goals (output control) or specific rules and procedures (behaviour controls) implies that a subordinate cannot have full autonomy in deciding what is best for achieving organisational objectives (Das and Teng, 1998). According to Das and Teng (1998, p. 501), "[t]his reservation often suggest a lack of belief in one's goodwill, reliability and confidence". Since the nature of formal control is at odds with trust, a negative relationship between formal control and trust can be expected.

Care and concern for the well being of the trustee is likely to increase social interactions (Pennings and Woiceshyn, 1987; Rempel, et al, 1985). As Pennings and Woiceshyn (1987, p.) note interpersonal trust in organisations is the “breeding grounds for the emergence of close relationships”. Such interactions promote open dialogue and enable the superior to find out the needs of the subordinate.

Societal context, national culture and trust

The importance of interpersonal trust within organisations, and its influence on the control behaviour of managers are likely to vary in different countries according to the nature of the society and the culture of those countries. There is evidence in the organisational literature to indicate that certain societal contexts and cultural traits are conducive to a high dependence on interpersonal trust in organisations (e.g. Hofstede, 1980; Doney et al, 1998, Whitley, 1999). In societies where trust in formal institutions and procedures (i.e., systemic trust) is low and authority relationships are more paternalistic than contractual, interpersonal trust appears to play a significant role in shaping the control behaviour of managers (Luhman, 1988). Delegated bureaucratic control systems are unlikely to be widely used in societies where systemic trust is low and authority patterns are paternal (Whitley, 1999). Control systems of organisations in these societies generally rely more on personal supervision and senior managers enjoy considerable discretion in their operation (Whitley, 1999). It has been observed, for example, that Chinese family businesses (Redding, 1990; Silin, 1976) and Korean firms (Janelli, 1993) rely on direct supervision and personal contacts in monitoring subordinates and sub-units. Subordinates, except those who have won the trust of the superior, are likely to be tightly monitored and controlled. Low trust in formal institutions and systems (i.e., low systemic trust) has been identified as one of the contributory factors in this situation (Silin, 1976; Redding, 1990;

Whitley, 1999). Other societal factors that are conducive to interpersonal trust-sensitive control behaviour include; owner control, small size of firms, paternalistic control systems, and weak training and education systems (Whitley, 1999). Paternalistic style of management (in contrast to bureaucratic style of management) appears to be common in cultures that are ranked high in the cultural dimension of power-distance. Most Asian cultures generally rank high in power-distance (Hofstede, 1980, Harrison 1993, O'Connor, 1995).

Comprehensive adoption of scientific management prescriptions is rare in Asian countries (Shiomi and Wada, 1996 as quoted in Whiteley, 1999). Formal systems are not indiscriminately used in superior –subordinate control relationships (Whiteley, 1999). Based on the literature, general connections can be made between cultural traits of power distance, paternalistic control systems, low systemic trust, and discretionary type control. Similarly, a forceful argument can also be made that in such a context, the importance of interpersonal trust is high. Hence, a variation in management control (example, monitoring) depending on the level of interpersonal trust could be expected in Asian societies.

Sri Lanka and China

Sri Lanka and Peoples Republic of China are the venues of this empirical study. Compared to western countries, individualism is lower and power distance is higher in these countries (Hosftede, 1980, O'Connor and Ekanayake, 1998). Societal and institutional factors that are conducive for interpersonal trust-sensitive control behaviour are present in both of these Asian countries. Management style has been observed to be more personal (Nanayakkara, 1992). Trust in formal systems and institutions, including legal system (which is a necessary pre-requisite for a contractual society) appears to be relatively low in these societies. In such societies, one would expect a greater role for interpersonal trust.

The literature reviewed above supports the following tentative hypotheses about the control behaviour of senior managers in organisations in Sri Lanka and China.

H1: Superior managers' high (low) trust of a subordinate is associated with a low (high) level of monitoring

H2: Superior managers' high (low) trust of a subordinate is associated with a high (low) level of social interactions.

H3: Superior managers' high (low) trust of a subordinate is associated with a low (high) level of reliance on formal controls.

THE EMPIRICAL STUDY

A questionnaire (followed by brief personal interviews where possible) appeared to be most appropriate for this study. A perplexing problem was how to design the questionnaire given that interpersonal trust is a very sensitive issue. It was anticipated that managers would be reluctant to confide to a researcher their feelings of trust and distrust towards specific subordinates. This reluctance was expected to remain even after assurances of anonymity and confidentiality were given. The topic of trust also raises the problem of social desirability bias (i.e., subjects giving logically correct answers which they think the researcher wants to hear, rather than indicating their actual feelings/behaviours). These two problems, made it necessary to devise the research in an indirect manner, as far as practically possible. Accordingly, (1) the questionnaire was described as a 'superior-subordinate relationship questionnaire, (2) subjects were not asked, either in the questionnaire or in subsequent interviews, to divulge the identity of the subordinates they were mentally focusing.

The study was initially conducted in Sri Lanka. Later it was conducted in China (Beijing).

Data collection in Sri Lanka

The sample consisted of 18 senior managers of medium-sized business firms in Sri Lanka. Because of their seniority and experience, these managers were expected to be able to provide comprehensive insights into managerial behaviour toward subordinates. The respondents were chosen on the basis of their experience in senior management positions and responsibility for managing several subordinates. In most cases, a managing director or head of a division was selected and contacted personally by phone. Initially, it was often difficult to obtain the potential respondents' consent for an interview. However, when respondents were told that a questionnaire will be sent before the interview, most were willing to participate.

All the interviews were conducted by the researcher. After obtaining the permission from the respondents, most interviews were tape-recorded. Where respondents refused to give permission to tape-record their interviews, information was documented in writing during the interview process. On average, the interviews lasted 30- 45 minutes. Verification of the questionnaire data was the main purpose of the interviews.

Data Collection in China

The respondents were mature-aged students in a Master's Degree program in accounting at a University in Beijing. The program was run by an Australian University. All the respondents as a minimum had a Bachelor's Degree in accounting, management or in a similar field of study. Most were managers or high ranking executives in public and private sector business organizations.

Confidentiality and anonymity were assured to the subjects through a covering letter which introduced the research project. Thirty seven students completed and returned the questionnaire. Due to design and logistic reasons no interviews were conducted.

The same questionnaire was used in Sri Lanka and China to collect data from the respondents. The respondents were asked to complete two separate sections of the questionnaire containing the same questions (in effect two questionnaires per respondent). In the first section, respondents were asked to focus on their 'most trusted' subordinates. In the second section, they were asked to focus on their 'least trusted' subordinates. The questionnaire was adapted from McAllister (1993, 1995). (Please see the questionnaire in Appendix 1). The questionnaire used a seven-point Likert-type scale anchored by 'strongly disagree' and 'strongly agree'. Trustworthiness was measured by adding the scores of the questions 1- 9. Level of monitoring was measured by questions 10-12. The extent of social interactions was measured by questions 13-16. The extent of the reliance on formal controls was measured by questions 17-21.

RESULTS AND ANALYSIS

Sri Lankan Cohort

The data obtained from the 36 questionnaires (i.e., sections) completed by 18 senior managers in Sri Lanka were combined and analysed to find bi-variate correlations between trust and, monitoring, social interactions and formal controls. Since data were not normally distributed, nonparametric Spearman's correlation coefficient was computed. As shown in Table 1, statistically significant correlations ($p < .01$), in the hypothesized direction, were found between trust and all three variables. As expected, the correlations between (1) trust and monitoring was negative, (2) trust and

social control was positive, (3) trust and formal control was negative. These results supported all three hypotheses of the study.

Table 1: Correlations between trust, monitoring, social interactions, and formal controls- Sri Lankan Data

	TRUST	MONITOR	SOCIAL	FORMAL
Spearman Correlation				
TRUST	1	-.868**	.703**	-.880**
Sig, (1-tailed)	.	.000 (p<.01)	.000 (p<.01)	.000 (p<.01)
N	36	36	36	36

**Significant at .01 level

The data were further analysed using paired-sample T-tests to see whether there was a significant difference in the control behaviour of senior managers towards their ‘most trusted’ and ‘least trusted’ subordinates. As shown in Table 2, monitoring and reliance on formal controls were lower for the ‘most trusted’ subordinates than for the ‘least trusted’ subordinates. In contrast, social control was higher for the ‘most trusted’ subordinates. All the differences were significant at $p < .01$ level.

Table 2: Paired sample T-tests: Comparison of Monitoring, Social Control and Formal Controls between high trust and low trust groups – Sri Lankan Data

N= 18	t	df	Sig. (1-tailed)
Pair 1 Monitoring High Trust- Monitoring Low Trust	-10.614	17	.000
Pair 2 Social Interactions High Trust- Social Interactions Low Trust	6.598	17	.000
Pair 3 Formal Control High Trust Formal Control Low Trust	-7.875	17	.000

Chinese Cohort

The same statistical analyses, that were performed on Sri Lankan data, were performed on data collected in China. Out of the 37 responses, 2 were excluded due to insufficient data on main variables. The data from 35 remaining respondents (i.e., 70 questionnaire sections) were combined and analysed to find bi-variate correlations between trust and, monitoring, social interactions and formal controls. As data were not normally distributed Spearman’s correlation coefficient was computed. As shown in Table 3, statistically significant correlations ($p < .01$), in the hypothesized direction, were found between trust and two of the three variables. As expected, the correlations between (1) trust and monitoring was negative, and (2) trust and social control was positive. Although the correlation between trust and formal control was negative, it was statistically non-significant. Hence, Chinese sample supported only two of the three hypotheses of the study.

**Table 3: Correlations between trust, monitoring, social interactions, and formal controls-
Chinese Data**

	TRUST	MONITOR	SOCIAL	FORMAL
Spearman Correlation				
TRUST	1	-.316**	.694**	-.159
Sig. (1-tailed)		.005 (p<.01)	.000 (p<.01)	.097 (p<.10)
N	68	64	66	68

** Significant at .01 level

The data were further analysed using paired-sample T-tests to see whether there was a significant difference in the control behaviour of senior managers towards their ‘most trusted’ and ‘least trusted’ subordinates. As shown in Table 4, monitoring and reliance on formal controls were lower for the ‘most trusted’ subordinates than for the ‘least trusted’ subordinates. However these results were only marginally significant, $p = .052$ and $p = .066$ respectively. Social control was significantly ($p < .01$) higher for the ‘most trusted’ subordinates compared with ‘least trusted’ subordinates.

Table 4: Paired sample T-tests: Comparison of Monitoring, Social Control and Formal Controls between high trust and low trust groups – Chinese Data

N =35		t	df	Sig. (1-tailed)
Pair 1	Monitoring High Trust- Monitoring Low Trust	-2.017	33	.052
Pair 2	Social Interactions High Trust- Social Interactions Low Trust	5.053	33	.000
Pair 3	Formal Control High Trust Formal Control Low Trust	-1.899	34	.066

DISCUSSION AND CONCLUSION

The purpose of this study was to explore the control behaviour of senior managers when they trust or distrust subordinates under their supervision. Specifically, the study examined the relationship between a senior manager's level of trust in a subordinate and level of monitoring, social control and formal controls the senior manager exerts in controlling the subordinate. The study was conducted in Sri Lanka and Peoples Republic of China, societies where the role of interpersonal trust is believed to be prominent. It was hypothesised that a senior manager's high (low) trust of a subordinate would be associated with low (high) level of monitoring, low (high) level of formal control and high (low) level of social control. The data from the Sri Lankan cohort support all three hypotheses of the study. The data from the Chinese cohort support only Hypotheses 1 and 2. The third hypothesis, i.e., the

negative relationship between trust and formal control, was not supported in this cohort. This result is interesting because it indicates a higher level of 'systemic trust' in China than in Sri Lanka.

The results of the study support the position that the control behaviours of senior managers in Sri Lanka and in China are sensitive to interpersonal trust. The results are consistent with the literature that recognises an important role for interpersonal trust in control practices in Asia. Multinational companies and other organizations operating in these countries may benefit by taking this condition into consideration when designing control systems for their subsidiaries or branches. Head office managers need to be aware of the costs, benefits and risks that go with trust-sensitive control behaviours of local managers. When combined with appropriate safeguards, trust-sensitive control behaviour of managers could be harnessed for the benefit of the organisation. The ability to empower trustworthy subordinates to take appropriate decisions and actions while reducing the cost of monitoring and other formal controls is potentially beneficial to any organisation.

This study has several limitations. Only a small non-random sample of senior managers was surveyed. Therefore, the results can hardly be extended to the population of concern. It is also possible that the design of the survey led managers to give socially desirable responses. It would have been more appropriate if each manager were asked to complete a separate questionnaire for each and every subordinate reporting to him/her, instead of the selected two. However, such a method will require much more time commitments from the respondents.

Based on the experience and insights gained from this exploratory study, it is proposed to conduct a well-designed, large-scale, random survey of senior managers in these countries or other Asian countries. The only way to test whether trust sensitive control behaviours of supervisors is a universal phenomenon is to conduct well-designed empirical studies in other countries including Western countries.

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