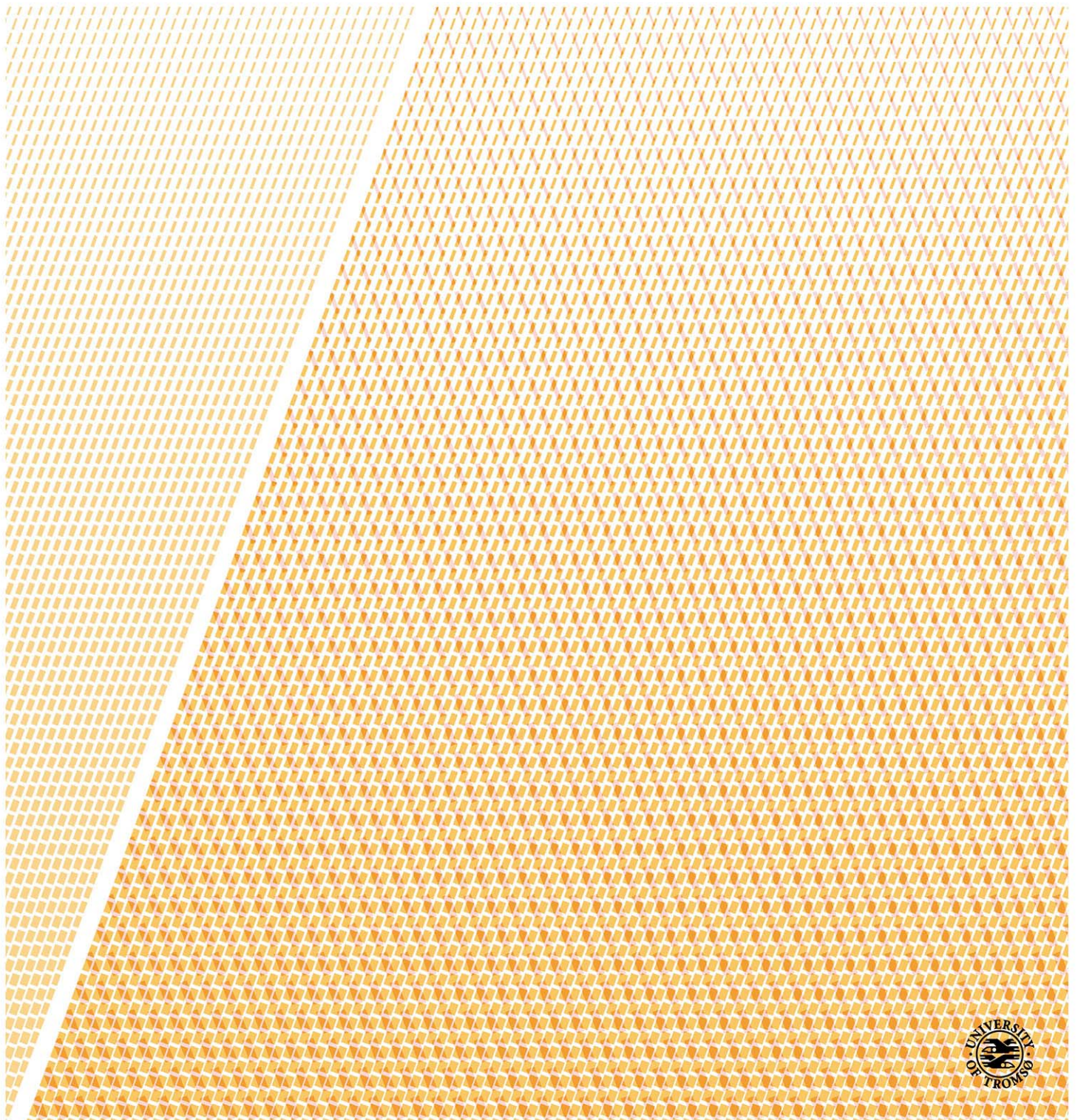


The Trust Paradox

An Inquiry into the Core of Social Life

—
May-Britt Ellingsen

A dissertation for the degree of Doctor Philosophiae – May 2014



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UNIVERSITETET I TROMSØ THE ARCTIC UNIVERSITY OF NORWAY
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PREFACE

What is trust? What make us trust each other in the first place? What is the relationship between trust and social change? And what goes on in the ‘black box’ where empirical observations are transformed into science? Questions like these have been on my mind for decades and are what finally led to this doctoral thesis.

My interest in trust is based on experiences from an old, traditional savings bank in the countryside - my working life started there 40 years ago. I observed the taken for granted trust those customers had in their bank and saw how this changed rapidly during the next 15 years through the modernisation of banking. When I started on my master thesis, the bank crisis was at its peak and trust in banks at a minimum. My supervisor Svein Jentoft encouraged me to study this; how the trust between bank and customer was transformed. He recommended a grounded theory approach and urged me to ‘discover how the trust processes unfold’. Trust and social change has been an issue in my research since then.

As any doctoral student can testify, writing a doctoral thesis is a lonely process – but dependent on trust – every kinds of trust and feedback from others. Sometimes, when my academic self-confidence was far below zero, trust and encouragement from family, supervisor, friends and colleagues provided the necessary boost to continue. Without you I would not have been able to finish. Thanks a lot to all of you!

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Last but not least, warm thanks to my daughter Marit for cheering drawings full of life, color and optimism and for lovely poems made to inspire me, for warm and endless support, for patience and acceptance of her mother's enduring occupation with *the thesis* in evenings and week-ends throughout her childhood and youth. Warm thanks to Hallvard, my dear husband, for endless support in all respects. Thanks for your enduring trust in me, for reading of the thesis, encouraging comments, inspiring discussions and your supportive attitude. And warm thanks to my bonus-children Hanna and Håvard for kind support, encouragement and trust.

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May-Britt Ellingsen

1. INTRODUCTION

'Trust is of all times. It is pervasive and indispensable'.¹

– BART NOOTEBOOM

Trust is a diffuse, multi-faceted quality pervading social life, a social process and a condition for unforced social interaction. Social life is largely managed through trust; it functions as social glue and lubricant – it holds people together and eases social interaction. Trust is mainly taken for granted, but if it is violated or absent, we become aware of its necessity. Trust is thus at the core of social life, perhaps *the* core. This makes trust an fascinating issue for sociological research.

1.1 Background: erosion of trust?

On a personal level betrayal of trust is a painful relational experience. On a societal level the fear of erosion of trust in vital societal institutions, for instance in the financial system, is upsetting and banks and governments are forced to intervene to prevent loss of trust. There are some alarming indications that the production of trust, as essential to social integration and as social glue, is threatened. Existing social bases for trust seem to be eroded by new risks and increased social complexity, and suspicion and distrust appear to be growing. Does this mean that trust is a diminishing quality nowadays?

Everyday life in the modern world is permeated by social risk and complexity; of situations beyond individual control, social change, contingency and lack of predictability (Luhmann 1979, 1990, Beck 1993, Giddens 1993, Bauman 2005). This state of social risk is generated by unexpected and unfamiliar events, the necessity of acting under conditions of uncertainty and insufficient knowledge, and the encounter with or reliance on strangers in ever more situations. Modernisation occurs through transformations of social organisations and social perception – the way things are done and how we think about them. This creates social risk and increased social complexity. Taken for granted patterns and social bases for trust – *on what* and *where* we place our trust are being transformed, while familiar patterns for actions and are being eroded.

¹ Nooteboom 2001:1

Trusting is a way to reduce social risk and complexity by making it intellectually manageable.² Trust increases the tolerance of uncertainty and reduces the indeterminate complexity of possible events (Luhmann 1979, 1990). By trusting risk, and complexity are suspended and one can act *as if* there is no risk (Luhmann 1979, 1990, Beck 1993, Giddens 1993, Misztal 1996, Sztompka 1999, Seligman 2000, Möllering 2006). There is an apparently increasing need of trust in modern society, a need enhanced both by expanding social suspicion (O'Neill 2003) and intensified social change (Giddens 1993). This trust situation gives rise to concern about trust and its relationship to social change, but despite the increase in trust research in various academic fields, the dynamics of trust and its relationship to social change is not fully explored. This is the background to the exploration in this thesis of the dynamics between trust and social change.

1.2 Method: a theoretical exploration of empirical grounding

The interest in trust developed through a study in the early 1990s; of how the trust relationship between savings banks and their customers was affected by the deregulation of banks.³ The study was based on grounded theory methodology (Glaser & Strauss 1967) and was an empirical study of the trust process between customer and bank, and how changes in the legal and social conditions for this process transformed the trust relationship.

The main findings were that: 1) deregulation of banks also proved to be a deregulation of the trust relationship between bank and customer. Analytically this was an exploration of micro level consequences of macro level processes, and 2) the generation of an empirically grounded theory of trust as a dynamic social process; *the composite concept of trust*.

The fascination with trust has accompanied my work as an applied researcher. I have used the composite concept in various projects, and it has been proven to have an explanatory power of

² In a recent publication, Möllering (2012) recommends the term *trusting* to denote the process element of trust. I agree that the word *trust* should be reserved for trust as a quality, while the word *trusting* should refer to the dynamic process of creating trust. The conceptualisation in the thesis is based on a process perspective – the *composite concept of trust* – refers to trust as a process of social construction. This could have been called the *composite concept of trusting*, following the recommendations from Möllering, but the thesis is based on use of the term *trust*. Although it is tempting now to use *trusting* instead, a shift in terminology needs further exploration which is a subject in this thesis. Trust is a state and an event as well as social quality and a social process – it is both *trust* and *trusting*. The term *trusting* is used here and there in the thesis to emphasise the active process of trust development.

³ The study was my master thesis *Konto for tillit* (translated: The account of trust), referred to as Nordnes 1993, which was my surname at that time. My surname is now Ellingsen.

trust processes in different social contexts (see note 140, chapter 14.2). The concept grew from the work with empirical data, and its analytical power is strengthened by connecting the concept to existing sociological theory. This thesis uses the study of trust between bank and customer as an example of how trust can be explored with grounded theory methodology. The study is a relevant demonstration of how social change initiated on the macro level can affect trust processes at the micro level, and how deregulation and organisational change can cause loss of trust. These processes are also of current interest as there is a global decline in trust in financial institutions as well as in governments and politicians (Barber 1983, Sennett 1998, Warren 1999, Cook 2001, Putnam 1995, Roth et al. 2013).

Grounded theory is an inductive method and one of the major approaches in qualitative research (Midré 2009). The grounded theory method aims to generate concepts and theory based on findings in empirical data and the theory has conceptual specifications, not definitions (Glaser & Strauss 1967). Grounded theories are generated for distinguishable levels of generality, as *substantive* or *formal* theory. Substantive theory is generated for ‘a substantive, or empirical, area of sociological inquiry’ (Glaser & Strauss 1967:32), while formal theory is more abstract. The term grounded theory means that the theory is based on empirical data. The process of theory generation involves the development of concepts that are grounded in empirical data – that is abstracted from data. This provides a broader applicability, also called *work and fit*, to the concepts and grounded theory. The concepts are removed from raw data from which the theory is generated. The composite concept of trust is based on a variety of observations and interview data which are systematised, categorised and analysed as the basis for the generation of a theory – a conceptualisation of how trust is developed, maintained or infringed.

A grounded theory has the quality of sensitising concepts. Sensitising concepts ‘give the user a general sense of reference and guidance in approaching the empirical instance’, in contrast to definitive concepts that ‘refer precisely to what is common to a class of objects, by the aid of a clear definition’ (Blumer 1954, p. 7). The sensitising character of a grounded theory is a methodical strength; it stimulates creativity through enabling the discovery of new processes and elements in addition to inclusion of supplementary data and theory. The sensitising aspects of the composite concept of trust means that the theory can be applied to explore basic trust processes in various contexts and that the theory can reveal the trust elements in social processes.

In grounded theory methodology the *theory* is a set of statements grounded in comparative analysis of empirical data, and not a set of logically interrelated propositions to be verified (Glaser 1978). A grounded theory conceptualises a latent pattern and is a well developed framework for the explanation of processes and relationships. A grounded theory is a work in progress and is expanded and strengthened through the collection of supplementary data called theoretical sampling (Glaser & Strauss 1967, Glaser 1978, 1998).

Throughout the use of the composite concept in analyses of data from various trust processes a question emerged: can the empirically generated theory of trust be supplemented and strengthened through theoretical grounding? Here, theoretical grounding means exploring how an empirically grounded theory can be integrated with existing sociological theory. This is an under-explored subject in the classic grounded theory literature. According to my literature studies there is a knowledge gap when it comes to this subject. The focus in this literature is mainly about how to conduct grounded theory, and not about how to integrate empirical based conceptualisations with existing sociological theory.

This thesis will therefore take the grounded theory of trust a step further and explores how the use of general sociological terms can integrate the empirically grounded theory into sociology and how existing sociological theory can be used to supplement and deepen the empirically grounded theory. Inclusion of existing theory into a grounded theory has to be done on the terms of the grounded theory according to Glaser & Strauss (1967). Can there be other strategies for integration between grounded theory and existing theory? Does grounded theory have particular barriers against integration with existing theory? An answer to these questions demands an exploration of grounded theory as methodology and how it discusses theoretical integration.

There is an additional reason to elaborate on grounded theory in a study of trust. This has to do with trust as a diffuse social phenomenon and the underexplored relationship between *trust* and *social change*. Grounded theory is a suitable methodology to examine unexplored empirical subjects, and this is necessary to expand the sociological understanding of trust. In addition, developing cumulative sociological knowledge about a subject studied through a grounded theory methodology, demands further insight into integration between empirically grounded conceptualisations and existing theory.

1.3 Focus and aims

The analytical focus of the thesis is trust as a social and dynamic quality. Although this is a theoretical thesis, the aim is not to test or verify hypotheses based on existing theory. The ambition is to explore trust as a social phenomenon through a particular conceptualisation of trust I developed through grounded theory methodology, called *the composite concept of trust*, in the thesis also referred to as *the grounded theory of trust*. This concept is examined through sociological theory and applied as a means of analysing the relationship between trust and social change. Furthermore the thesis explores the theoretical conditions for integration between empirically grounded theory and existing sociological theory. These ambitions will be pursued through three main sets of working questions and aims:

- 1) What characterises trust as a process of social construction? The exploration of trust as a social process and its social foundations is conducted as a theoretical grounding and integration of the composite concept of trust with existing sociological theory. This exploration is the main theoretical body of the thesis.
- 2) Does the grounded theory method open up possibilities for integration between existing sociological theory and empirically grounded theory? Is this feasible based on the terms of grounded theory? Grounded theory as a methodology for conceptualising trust, and how grounded theory based conceptualisations can be integrated with existing sociological theory, is explored in the methodological part of the thesis.
- 3) How is the relationship between trust and social change? The composite concept is applied to an analysis of the relationship between trust and social change, discussed here as *the trust paradox* and as the *social configuration of trust bases*.

In the verification tradition the working hypotheses grows from existing theory. This thesis is built on a grounded theory tradition and is an exploration of various aspects of an empirically grounded theory of trust. Grounded theory is an inductive methodology where hypothesis and concepts come from the empirical data. This necessitates an introductory presentation of the grounded theory of trust, which provides background for the methodological work, the theoretical integration and the analyses of trust and social change; *the trust paradox*.

Subsequent parts present the main elements in the composite concept of trust and thereafter the trust paradox. Finally, an outline of the structure of the thesis is provided.

1.4 Social construction of trust: the development of mutual understanding

The grounded theory of trust is briefly presented below as a dynamic process perspective on trusting.

Trusting is a process of social construction, a dynamic between individual perception and external input. The construction of trust in social relationships, which is the focus here, is a reliance on others to keep implicit and explicit promises and act predictably, that they will stick to assumed common social scripts and taken for granted tacit social rules and norms. The social construction of trust is a process of establishing a belief in the expected fulfilment of a promise about future behaviour. The belief is based on a *mutual understanding* which functions as an implicit contract between individuals. Mutual understanding, which is the core element in my grounded theory of trust, is the trigger for bestowing trust. When an actor feels sufficiently assured that there is a mutual understanding of the social promise and that the other will keep this, he takes the risk of trusting. To take the risk of trusting also means to suspend possible doubt in the fulfilment of the social promise. According to Möllering (2006) is suspension of doubt is the critical element in the process of developing trust.

Suspension of doubt and establishing belief is based on *reciprocal acknowledgment of mutual understanding*. Mutual understanding means a mutual acknowledgement of a shared tacit social contract. This acknowledgement is the basis for making the *leap of faith*; to categorise the contract as trustworthy, and it is the social 'springboard' that makes the participants take the risk of suspending doubt and trusting their expectations. The acknowledgement is at the heart of social interaction, it is a confirmation of self and the other as socially competent, as mastering the relevant social scripts and as able to foresee and adjust to the other. Through interaction, the participants mutually confirm the tacit agreement that they act in a way that is predictable for the other and trust is maintained.

Möllering (2006:72) points out that 'trust is essentially not so much a choice between one course of action (trusting) and the other (distrusting), but between either accepting a given level of assurance or looking for further controls and safeguards.' I hold that mutual

understanding is the point of acknowledging a satisfactory level of assurance that the other shares the social script and a feeling that he/she will behave in accordance with this. The term social script presupposes interaction and mediation between the social and the individual, and that the individual has freedom *not* to follow the script. Trust is eroded if the behaviour or values performed deviates too much from the script.

The level of satisfactory acknowledgement as a platform for the leap of faith is constructed through individual interpretation and sense-making. Empirical exploration is needed to show the extent to which individuals share or feel obliged by social norms and rules, they can be taken for granted or take the form of considerate acceptance. Everyday life is to a great extent based on taken for granted mutual understanding; this is trust as the omnipresent condition for social interaction, and when it is violated, it has to be re-negotiated and re-constructed.

1.5 Three social bases for trust

Trust is both an individual feeling, and a social quality. I therefore hold that development of mutual understanding is dependent on a common social foundation, a contextual basis to secure the belief in others' fulfilment of one's expectations. The social basis is the common source of trust; a necessary common ground for social interaction and the platform for performing the leap of faith. The dynamics in the social basis for mutual understanding is a key to understanding how trust is developed, maintained and re-constructed. An exploration of these processes will give insight in the sources of trust and the process of trust development.

In the study of trust processes I discovered that the three social bases for trust are common bases for interaction and foundations for the development of mutual understanding. Without something in common, development of mutual understanding has to start from scratch through stepwise interaction and mutual acknowledgement of social platforms for interaction. The trust bases are broad analytical categories which refer to general dimensions of social life; *pre-contractual* taken for granted social assumptions, *relational* processes created through social interaction, mediated or ascribed familiarity, and *formal structures* such as laws, rules, and regulations backed with legitimate sanctions. These general social processes are platforms for mutual understanding and the belief in the other's willingness to act predictably.

The social bases for trust enhance social predictability and contribute to securing the belief in fulfilment of expectations. Developing and maintaining trust under changing social conditions requires reconstruction and reconfiguration of the common social bases. Pre-contractual, relational and structural bases or platforms for trust also refer to three analytically different strategies to develop trust. Trust is not one quality, but can be separated into these three forms pre-contractual, relational and structural, which are related to the three social bases and general social qualities of trusting.

The three forms are briefly presented below and each will be discussed in depth in the theoretical part II of the thesis.

i) Interaction, transactions and contracts, indeed all aspects of social life are deeply rooted in a series of habitual, taken for granted assumptions about common norms and rules of action. This is an assumed common stock of knowledge. Actors need confidence in the belief that others in the same setting to a certain extent share this knowledge and that they will, accordingly, behave reasonably (Weber 1978, Luhmann, 1990, Misztal 1996, Brenkert 1998, Sztompka 1999). This trust in others willingness to keep to the social script is *pre-contractual* trust, a mainly implicit form of trust established over time through socialisation, experience and interaction; we learn to take for granted that numerous tacit promises will be kept.

Pre-contractual trust is a basic social quality and an element in relational and structural trust. The basis for pre-contractual trust is recreated through social experience and learning; socialisation is a never-ending process. Social experiences influence pre-contractual trust; social processes maintain or violate relational trust, while structural trust is a macro level quality, dependent first and foremost on legitimate power. Development of pre-contractual trust is a continuous process inherent in everyday life. Socialisation means acquiring a pre-contractual base for trust and this is an on-going social process. Action and interaction implies confirmation or violation of tacit or explicit expectations and the outcomes contribute to strengthening or undermining pre-contractual trust. Small daily surprises or moments of unpredictability can, but do not necessarily, have long lasting effect on pre-contractual trust.

ii) *Relational* trust is based on some form of familiarity and develops in social processes through interpretation, communication and interaction. This kind of trust has traditionally been linked to face to face relationships where those involved know each other and have the

reassurance of sharing common rules and norms (Luhmann 1979, Giddens 1993, Misztal 1996, Sztompka 1999). Relational trust is rooted in previous relationships and may be linked to reciprocity (Zucker 1986, Misztal 1996, Sztompka 1999). It develops through social processes such as communication, cooperation and negotiations. Experiences through interaction contribute to convince us about the others willingness to keep the promise, or the opposite, which may lead to erosion of trust.

The social construction of trust is a dynamic interaction between perception and interpretation, construction of meaning and confirmation of mutual understanding. Relational trust bridges the barrier between oneself and the other. It is based on personal relationships and reciprocity (Zucker 1986, Misztal 1996, Sztompka 1999), on face to face relationships and small group relationships where those involved know each other and share common rules and norms (Luhmann, 1979, Hart 1990, Giddens 1993). Relational trust can also be based on one-sided distant relationships, as ascribed or mediated familiarity (Ellingsen 2003). This interpersonal trust pervades social life and is constructed and re-constructed through social interaction and communication. Relational trust is the quality we probably intuitively perceive as 'trust' in our everyday language.

iii) *Structural* trust is rooted in formal social structures and positions and has much in common with institutional or system trust (Luhmann 1979, Giddens 1993, Misztal 1996, Lane & Bachmann 1996, Sztompka 1999) and it applies beyond the individual level. Structural trust is gradually institutionalised through formal organisations, laws, property rights, business regulations, contracts and professions. Formal structures are basis for structural trust and function as general promises backed by sanctions from a legitimate power. The possibility of legitimate sanctions serves to safeguard the trustor; it brackets out the risk and is a basis for mutual understanding.

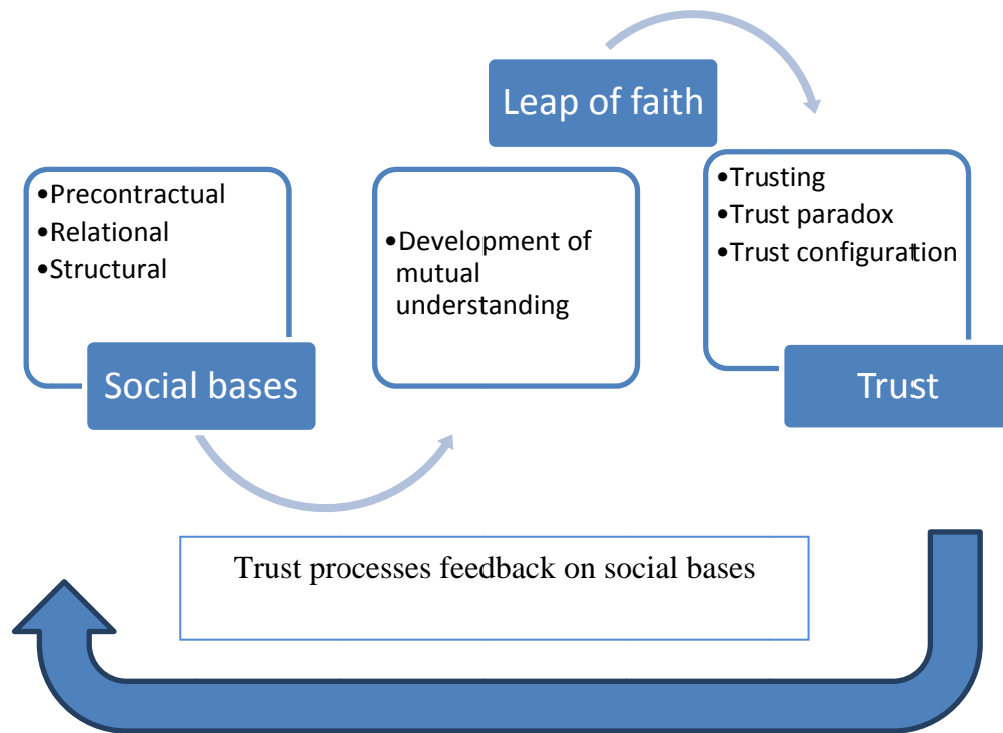
The legitimate system of sanctions, in practice the judicial system, is a platform for structural trust, but other formal structures may have the same social function such as for instance technical and procedural standards (Lane & Bachmann, 1996). Development of bases for structural trust is closely woven together with the institutionalisation of a legitimate nation state, expert systems and in some cases supranational institutions. Lack of predictable legal structures and arbitrary legal practices is an effect of weak or lacking structural trust bases.

The structural trust concept refers to non-personal trust and generalised trust. This form of trust is also referred to as institution-based trust, generalised trust and macro level trust. Institution is a complex and ambiguous concept and the question of ‘*how and when* institutions matter with regard to trust building is one of the least understood areas within trust research.’ according to Bachmann & Inkpen (2011, p. 282). A further clarification of structural trust and its relationship to generalisation of trust and institution-based trust is additionally discussed in the thesis, in the chapter about structural trust.

As long as expectations are confirmed and everything works as expected, trust is maintained and these processes remain invisible. Analysis of trust processes involves making the various elements in the process visible, and to establish relationships and causality between elements to explain how processes unfold – that is to make visible the social construction of trust.

Trust is a personal feeling with a social basis and *the dynamics between the social basis and individual sense-making* is fundamental to the process of developing and maintaining trust. An exploration of the dynamics between the social basis of trusting and the individual sense-making will provide a richer understanding of trust as a social phenomenon and trusting as a social process. These dynamics are key to the composite concept of trust and the focus for the exploration of trust in this thesis. On the next page the trust process is exemplified through a model with the main elements and arrows indicating the trust process.

Figure 1 Trust process model



This model shows the interaction between social bases, mutual understanding, the leap of faith and trusting. The process runs from left to the right and with a large feed-back arrow at the bottom, which indicates that trusting is an on-going process and that former experiences have consequences for trust development. The ‘content’ of the social bases for trust are the input in the trust process, this is the platform for construction of mutual understanding. If this is assumed to be confirmed, the trustee makes the leap of faith into a state of trusting. This state is dynamic, and there can be situations of change such as the *trust paradox* and new *configurations* of trust bases.

The different elements of the model and their relationship will be discussed throughout the theoretical part of the thesis.

1.6 The trust paradox

Trust is under pressure in our time. Social change and increased social complexity increase the need for trust, but erode the familiar basis for it. Suspicion and widespread fear of terrorism represent new risks and dangers that require a trust response and may indicate an erosion of the social basis for trust. If implicit or explicit promises are broken, if expectations

are not fulfilled or obligations not met, we may feel that trust is affected; that it erodes, disappears or turns into distrust. Trust seems to be needed more than ever, while the social foundations for trust are eroding under new risks, suspicion, social change and complexity.

These processes are not necessarily indications of a deeper erosion of trust. This thesis discusses how social change tends to lead to a *trust paradox*. The research focus in trust studies has not usually been directed towards the dynamics between the social transformation of trust bases and the conditions for (re)-building of trust. New analytical tools are needed to discover these processes and the thesis contributes to this through the theoretical exploration of the grounded theory of trust. This conceptualisation of trust is an analytical tool for exploring how micro level processes are affected by social change and modernisation; how changes in roles and rationalities and structural transformations on the macro level affect trusting on a micro level and the general level of trust in society. Institutionalisation, deregulation and development of new roles are processes that affect social organisation and social perception – the way things are done and the way we think about them.

The *trust paradox* summarises two main lines of argument in the literature on trust. Möllering (2006:2) uses the metaphor of *wells and pumps* to describe the different views. One position is the argument that '*the wells are drying up*', which is set forth by those concerned about the erosion of trust; that the sources of trust are declining (Barber 1983, Beck 1993, Putnam 1995, Sennett 1998, Cook 2001, O'Neill 2003). The other position is marked by the argument that '*pumps cannot keep up*', suggesting that there is an increasing demand for trust in more areas of life (Giddens 1994, Misztal 1996, Seligman 2000, Sztompka 1999). The '*wells are drying up*' position is concerned with how to live with the erosion of social ties, while the '*pumps cannot keep up*' position is focused on how to rebuild trust and why that is becoming increasingly difficult.

However, could the trust paradox lead us to a *third* position? Is the crisis of trust in the late modernity either a question of '*drying wells*' or '*insufficient pumps*'? Can there be another perspective which suggests that '*the wells are invisible*' and '*the pumps are under reconstruction*'? The present theoretical perspectives and analytical tools for exploring trust do not explicitly address the relationship between '*drying wells*' and '*insufficient pumps*' for trusting. The analytical tools do not recognise either new wells or restored pumps; they do not recognise new bases for trust or processes for construction and reconstruction of trust.

Limited insight into the dynamics between trust and social change may lead to a misinterpretation of changes in trust bases and trust processes as crises, rather than as on-going social processes.

The third perspective is explored in the thesis. The hypothesis is that there is not a crisis of trust in the sense that trust is simply declining. What we have is a social paradox – a *trust paradox* – this means that there is an increasing demand for trust in parallel with erosion of the social foundations of trust. The need for trust increases, but conditions for development of trust are undermined.

This observation will be further examined through discussion of the following question:

Do we have a breakdown of the social contract and basis for trust, or is the trust paradox an indication of reformulation and new configurations of trust forms rather than breakdown of trust on a societal level?

In order to explore the relationship between trust and social change, we have to make the ‘wells’ of trust and the ‘*process of reconstructing the pumps*’ more visible. This necessitates a theoretical exploration of ‘the wells and pumps’ of trust, which indicates a research focus directed towards *the dynamics between social transformation of trust bases and rebuilding of trust*. The composite concept of trust conceptualises the social bases for trust – the sources of trusting, whereas the concept of *mutual understanding* conceptualises the trigger for the process of trust development – the pumps of trust. Social transformations alter the foundations for trust; the tacit social contract and the bases for mutual understanding. Restoring trust means developing new social bases for mutual understanding; that is accessing new wells, and reconstructing the pumps. Pumps need continuous maintenance – as does trust; it is a dynamic quality and mutual understanding has to be acknowledged and maintained through everyday actions and interactions.

An exploration of the interaction between different social bases of trust – *the configuration of trusting* – will contribute to a better understanding of the social dynamics and functions of trust. The composite concept of trust is an analytical tool that contributes to a better insight into the social foundations for developing trust and the relation between trust and social change.

1.7 Reconfiguration of trust

Change, renewal and innovation transform tacit and explicit social foundations for trust; creating transformations that erode familiar bases for social interaction and increase social risk and complexity. Change involves a leap from the familiar to the unfamiliar (Luhmann 1979), a leap that involves risk and the possibility of failing. This demands additional trust, but operating in a changing environment makes it difficult to develop mutual understanding. By their nature, changes transform the social basis for developing mutual understanding. This is the core of the trust paradox; the erosion of the social basis for trust that occurs in parallel to increasing demands for trust.

The *trust paradox* points to the relationship between trust and social change: Are changes in trust a result of social change or will changes in trust cause social change? Is crumbling trust an effect of social disintegration or the cause of it? Perhaps are these wrong questions – perhaps the relationship between social change and trust is not a question of cause and effect – but rather a question of on-going transformations of our common bases for trust? Change erodes the familiar social basis for trust and hence has an effect on trust, directly and indirectly, depending on the situation.

The distinction between *erosion of trust* and *erosion of the social basis for trust* is important. Erosion of the social bases for trust is not about trust transformed to distrust or lack of trust; it is about the way the social foundations for trusting are changing. Hence, there can still be trust. The trust is not lost, but the familiar social basis for trust is under transformation. Transformation of the social basis of trust influences trusting and demands maintenance and reconstruction of trust. This suggests that change processes affect the development and maintenance of trust. Organisational change, for instance, will transform the social foundation for construction of trust in that particular organisational context, but trust consequences are rarely taken into consideration in processes of organisational transformation because trust is invisible and mostly taken for granted. We do not notice it unless it is violated, either in practice or analytically.

The relationship between trust, social change and modernity is mainly discussed by sociologists such as Luhmann (1979), Zucker (1986), Giddens (1993), Fukuyama (1995),

Sztompka (1999), and Seligman (2000).⁴ Except for Zucker's analysis of the transformation of the US economic system during 1840-1920, and Giddens' (1993) analysis of modernity, none of the above-mentioned works have focused explicitly on the dynamics between different forms of trust and social transformation, or on trust as a process of social construction. These subjects must be explored to get a better understanding of the relationship between trust and social change and will be examined here through the composite concept of trust.

As discussed above, the development of trust involves suspending doubt and making a leap of faith (Möllering 2006). The "trigger" for this leap is the sufficient recognition of *mutual understanding* of the promise and the fulfilment of it. The leap of faith is a socially constructed outcome, which presupposes a common social platform for interaction and mutual understanding. The leap of faith requires us to generalise from the familiar into the unknown, and trust functions as a kind of substitute for the unknown. Analytically, this substitute has pre-contractual, relational and structural platforms. These interrelated platforms are social sources of familiar knowledge which trust is based upon and generalised from. An exploration of trust and social change requires the investigation of the configuration of common social bases for developing and confirming mutual understanding.

The composite model of trust is a sociological perspective on trust and social change. The conceptualisation takes into account that trust is a pre-condition for, and a possible outcome of, social action; that social processes contribute to maintaining or weakening trust, and that trust is a psychological state and relational quality as well as a dynamic social process of interpretation, interaction and social construction. The three forms of trust, pre-contractual, relational and structural, are not mutually exclusive, and the configuration of the forms varies with context.

In summary the composite conceptualisation of trust means that trust is *not one* quality, but is comprised of three main elements or forms related to the three social bases. These trust forms are general social qualities. They are not mutually exclusive or phases in a process, but can operate side by side, partially influencing each other. The exploration of the interaction

⁴ Some forms of change might have been the implicit reason for investigating the phenomenon of trust in several subjects, for instance in organisation studies (Kramer & Tyler 1996, Lane & Bachmann (eds.) 1998, Bachmann & Zaheer (eds.) 2006), but the subject of trust and social change is not the explicit focus in those studies.

between different forms of trust will expand our understanding of the social dynamics and functions of trust. The composite concept of trust is an analytical tool that will provide insight into the social foundations for developing trust, the relationship between trust and social change, and in the role of trust as a dynamic process of social construction.

1.8 Contribution and structure of the thesis

The social processes discovered in the grounded theory of trust, are general social processes discussed in sociological literature, but are not explicitly related to the development of trust.

The theoretical contribution of this thesis is therefore:

- 1) The presentation and discussion of a grounded theory of trust as a process of social construction.
- 2) The exploration of how the main elements of the theory are discussed in sociology. These elements are the core concept *mutual understanding* and the *pre-contractual, relational and structural* social bases for the development of mutual understanding.
- 3) The development of a process perspective on trust, grounded both in empirical data and in sociological theory, and an application of this perspective in the discussion of the *trust paradox*, which is an analysis of the relationship between trust and social change.
- 4) The exploration of how grounded theory relates to existing theory, here exemplified by sociology, and a model for stages in integration of grounded theory and existing theory.

Thus, the aim of this thesis is to make a theoretical exploration of trust as a social phenomenon through a discussion of the composite concept of trust. This concept is grounded in empirical data on a substantive level, and is expanded to a formal grounded theory concept. The grounded theory method recommends postponing literature readings in the particular research topic until the theory has been generated. Then, in the final stage of a grounded theory work, the generated theory should be carefully weaved into its place in the existing literature (Glaser 1978:137). This thesis is about weaving a grounded theory of trust into existing sociological theory. Trusting is a general social process and the theoretical part explores how the existing sociological theory of trust together with general sociological

theory can contribute to expand, nuance and enrich an empirically grounded theory. The theoretical exploration seeks to position the composite concept in relation to sociological theory and to discuss it in relation to main sociological works of trust. This I hold, is more than to wave it into the literature, it is to generate a sociological grounding of the concept and demonstrate that both empirical and theoretical grounding can contribute to expanding the knowledge about a subject.

The thesis has three main parts: I) Literature review and methodology, II) Theory and integration, and III) Analyses, empirical examples and final reflections. The parts can be read independently of each other even though they build on each other. The first part starts with chapter 2 and a review of trust literature which is not discussed further in the theoretical part, chapter 3 discusses methodological roots and the ambiguity of grounded theory. Chapter 4 explores the methodological roots of the composite concept and chapter 5 elaborates on the process of conceptual development and concludes with four strategies for integration between grounded theory based concepts and existing theory. The next part opens with chapter 6 that explores mutual understanding and the social construction of trust. Chapter 7 addresses pre-contractual trust and its relationship to familiarity and confidence, and chapter 8 elaborates on pre-contractual trust and social change. Chapter 9 focuses on relational trust and presents a table of expectations for analysis of trust processes. Chapter 10 analyses structural trust and the relationship between structural trust, systems trust and institutional trust. Thereafter follows the third and last part. Chapter 11 demonstrates the conceptual tool in an analysis of the trust paradox through a discussion of different social configurations of trust. Chapter 12 analyses long term social change and trust exemplified by a study of institutionalisation of trust in savings banks. Chapter 13 analyses how social change on the macro level affects trust on a micro level. This is illustrated by the study of how deregulation of savings banks deregulated the trust relationship between bank and customer. The final chapter 14, concludes the thesis, summarises the main findings and contributions, and discusses the implications for development of trust and its relation to social change. The chapter also points to limitations and raises questions for further research. The appendix provides further information about empirical data and data collection.

PART

I

LITERATURE REVIEW

AND

METHODOLOGY

2. CONCEPTUAL DIVERSITY IN THE TRUST LITERATURE

*'An adequate analysis of trust begins with recognising its multi-faceted character.'*⁵

– DAVID LEWIS, ANDREW WEIGERT

What characterises trust? How is it constructed socially? What is the relationship between trust and social change?

These questions have been on my mind for almost three decades; they do not have one definitive answer, but can be explored from various academic disciplines. Today trust is a research topic in several disciplines, but when I started to study the trust relationship between savings banks and customers twenty five years ago, trust was a poorly examined topic. My tutor therefore recommended using grounded theory methodology to study the phenomenon.

The aim of a grounded theory study is to generate empirically based theory. To prevent bias and theoretical disturbance of the empirically based theory generation, the method recommends postponing of literature studies. If necessary, a literature review can be conducted when the theory is generated; the empirical grounded theory has priority and the existing literature can be referred to in footnotes and should not be used as a key (Glaser & Strauss 1967).⁶

The initial generation of the composite concept of trust was therefore not based on existing trust literature, but on empirical data and reading of general sociological literature. This means that the literature review presented here does not lead to a *theory driven* research hypothesis, but provides a brief overview of relevant trust research, and discusses how a few perspectives on trust, particularly those prevalent in organisation theory, can be related to the grounded theory of trust.

⁵ Lewis, Weigert (1985:969)

⁶ The relationship between grounded theory and existing theory is a common thread of the thesis and will be explicit discussed further in the methodological part of the thesis.

If the thesis followed the structure of a grounded theory work, the literature review could be left out and references made in footnotes, or at least presented after the methodological part. Here the literature review is presented as a general introduction to the subject of trust, and as a background to the methodological and theoretical parts. The theoretical part, succeeds the methodological part, and is an exploration of trust and how the grounded theory concept of trust can be integrated with sociological trust theory. As early sociological works on trust, such as those by Luhmann (1979), Barber (1983), Zucker (1986) and Giddens (1993), are focused on in the theoretical part (chapter 6-10), these works will therefore not be discussed in this literature review.

2.1 Trust and process perspectives

Although there is no common definition of trust, there seems to be consensus in the literature about the following characteristics: *Trust is a foundation of social life; it is a relational quality, a device for coping with the risk associated with the freedom of others, and a strategy for handling complexity and social risk* (Luhmann 1979, Barber 1983, Zucker 1986, Misztal 1996, Rousseau et al. 1998, Sztompka 1999, Seligman 2000, Giddens 1993 and Möllering 2006). Trust is about expectations and anticipation of others' future actions, but the theories differ in how, why and what role trust plays in this. There are a number of approaches about how to characterise trust and the development of trust, but the dynamic and process nature of trust is under-explored, according to Möllering (2012).

The perspective suggested in the thesis, is to analyse trusting as a dynamic process of social construction. This thesis aims to reduce knowledge gaps on trust as a dynamic process and present a theoretical discussion of an empirically grounded theory of trust as a dynamic process of social construction. This theory is based on *the composite concept of trust* and *mutual understanding* as analytical tools for exploration of the dynamic nature of trust. The following three chapters in part I discuss the empirical grounding and generation of these concepts, the scientific perspectives of the conceptualisation and suggest four strategies for integration and theoretical grounding of an empirical grounded theory.

In the last decade, trust has been the subject of increased focus among scholars within a wide range of disciplines. The literature on trust has 'exploded' in social sciences as well as in management and business literature (Misztal 1996, Seligman 2000, Sztompka 1999,

Möllering, Bachman & Lee 2004, Bachmann & Zaheer 2006, Möllering 2006), but the prevailing perspectives in these studies focus on measurement, forms or qualities of trust.

There are a number of studies discussing phases or cycles in trust development, but the main thrust of trust literature has been a rather static and descriptive focus on trust, although with a rich literature on different qualities of trust. Möllering (2012) therefore suggests a process view of trust as a dynamic and continuous process, as *trusting*. A process view means perceiving trust as a continuous and on-going quality, not as a static outcome. 'Process views of 'trusting' emphasise that trust is always 'in process' and is even a process in itself' (Möllering 2012:2). Trusting can be examined as social or mental, or as a dynamic between these dimensions. To examine trust as a process, Möllering suggests five process views of trusting to inspire researchers to position their work in relation to trust processes. To some extent these views or labels on trust processes build on each other, they describe and emphasise different processes and 'develop from relatively moderate to more pronounced notions of process' (ibid:5). The five processes also represent a gradual development towards more a complex perspective on analyses of trusting and they can be considered as steps in the development of studies in trust as a dynamic and continuous quality. The five process labels are 1) trusting as *continuous* and as a development from phase to phase, 2) trusting as *processing* of information, as input and outcome, 3) trusting as *learning*, 4) trusting as *becoming* and identity formation, and 5) trusting as *constituting*.

The work in this thesis is a continuation and extension of trusting as *constituting*. The perspective in the thesis may prove to be a sixth process label on trusting; trusting as *social construction*. The thesis explores the dynamic interaction between social and individual processes in the generation of trusting; trusting as practice. The thesis also explores the dynamics between trust processes at the social micro and macro level and the dynamics between trust and social change.

In order to undertake further theoretical exploration of the grounded theory of trust, it is necessary to situate the trust perspective – trust as social construction – in the theoretical trust landscape. This chapter presents a brief overview of the main approaches to trust as a phenomenon in different subject areas and concludes with pointing out some qualities of trust that are important for the conceptualisation and elaboration of trust in consecutive chapters.

2.2 A multitude of perspectives on trust

Trust is a multi-dimensional phenomenon (Barber 1983, Nordnes 1995, Misztal 1996, Lane 1998, Hardin 2001, Möllering 2006) and has a multi-faceted character with ‘distinct cognitive, emotional and behavioural dimensions, which are merged into a unitary social experience’ (Lewis & Weigert 1985:969). Trust is a basic and pervasive element of social life, located in the space between us. Analytically this relational space is a *black box* in the trust research and the elaboration of the composite concept of trust and mutual understanding is an exploration of this black box.

Trust is a prerequisite for social relations and is maintained through social interaction and fulfilment of mutual obligations. Neither trust nor lack of trust can be identified as objective facts, but if trust is absent, this is evident through social consequences such as exit or withdrawal. Further, I hold that by trusting, one takes the risk of acting in anticipation of possible future actions, of entering into long-lasting relationships and obligations and of making generalisations from the known to the unknown. Trust suspends social risk, uncertainty, and vulnerability (Luhmann 1979, Lane 1998, Rousseau et al. 1998, Möllering 2006) and it is a mechanism for social coordination (Bachmann 2001).

The analytical focus on trust varies between disciplines. In philosophy trust is discussed in relation to moral dilemmas, norms and ethics and the problem of social order (Hollis 1998, Seligman 2000). Political science focuses on the role of trust in the functioning of civil society and as an element in political processes, participatory democracy and the production of social capital (Putnam 1993, Fukuyama 1995, Cook 2001, Warren 1999, Uslaner 2002).

Economists discuss and measure trust as a strategic calculation of risk and rational choice based on individual interests, or they analyse trust as an institutional phenomenon (Williamson 1983, Coleman 1988, 1994, Braithwaite & Levi 1998, Cvetkovich & Løfstedt eds. 1999, Cook ed. 2001, Hardin 2002, Nooteboom 2002 and Kramer, Cook 2004). In rational choice theory and transaction cost economic approaches, trust is discussed as a strategic calculation of probability (Collins 1982, Coleman 1988, Nooteboom 2002, Hardin 2002). Rational calculation can be one of several possible mental processes or approaches to bestowing trust, and theoretical perspectives define which processes that are emphasised in a trust analysis. Rational calculation alone is not sufficient to facilitate trust, at least not from a sociological point of view (Lane 1998). As Bachmann (2006:396) points out ‘it is grossly

misleading to assume that a trustor can ever ‘calculate’ the risk that is involved in a trust investment’. Möllering (2006:48) rejects calculative trust and considers it as ‘mechanistic decision-making under risk’ and states, with reference to Lewis & Weigert (1985:969), that ‘trust succeeds where rational prediction alone would fail’.

This thesis explores trust from a sociological perspective; as a relational quality and process of social interaction and construction, not as a strategic calculation of possibilities for gain or loss. Apart from a discussion of calculus-based trust in a later section, rational choice approaches to trust will therefore not be discussed further, either in the context of trust and social capital, or in terms of trust as an element in civic society.⁷

2.3 Trust from a sociological perspective

A wide range of issues related to trust are discussed in sociology. The main subjects are the foundations of trust production, the function of trust, and how trust contributes to social order. This includes trust as the basis of society and social action, as well as trust as a relational quality in various social settings from institutional to actor level. The main sociological perspectives on trust are only briefly mentioned here as they will be more fully discussed in the theoretical part of the thesis.

A sociological perspective on trust on a conceptual and general level is addressed by Luhmann (1979), Barber (1983), Lewis & Weigert (1985), and Giddens (1993). These contributions focus on the functions of trust, while Misztal (1996), Seligman (2000) and Sztompka (1999) explore trust and the problem of order in a wider sense. A process perspective on trust is discussed by Zucker’s (1986) study of the institutionalisation of new economic structures in USA during the most intense immigration period between 1840 and 1920. A rather new conceptual discussion by Möllering (2006:1) aims ‘to demonstrate the many facets of trust and the value of taking different perspectives on trust...’ in the book *‘Trust: Reason, Routine, Reflexivity’*. Möllering’s discussion of the leap of faith and reflexivity as the core processes for developing trust is an important contribution to the conceptualisation of trust as a dynamic process of social construction.

⁷ Möllering (2006) gives a rich overview of the main positions of trust research in rational choice and other perspectives.

The potentially unlimited possibilities of actions in our time create social complexity and risk. Luhmann emphasises the function of trust and considers it to be a solution to problems of risk, uncertainty and social complexity in general (Luhmann 1990:95, 1979:5). Trusting is a way of creating individual and social predictability. It is a way of coping with the freedom of others and enabling individuals to handle risk and complexity related to the outcome of future actions (Luhmann 1979, Gambetta 1990a:219, Misztal 1996, Sztompka 1999). This perspective focuses on the abstract system level, but can be applied at a micro level. Others, for instance, Gambetta (1990a), Misztal (1996) and Sztompka (1999) discuss trust and risk at the micro level in relation to action, expectations and intention, respectively. The function of trust is discussed in Luhmann's book *Trust and power* (1979), a classic work widely referred in the trust literature, also in fields other than sociology (Bachman 1996).⁸ Luhmann's work has influenced later sociological contributions such as Giddens (1993), Misztal (1996), Sztompka (1999), Bachman (2001) and Möllering et al. (2004).

Categorisation of trust literature according to the general problem focus reveals that the level of familiarity constitutes a fundamental distinction between forms of trust (Bigley & Pearce 1998:409). There are three main categories of problem focus for trust and distrust research that can be discerned: 1) interaction among unfamiliar actors, 2) interaction among familiar actors, and 3) organisation of economic transactions.⁹ These three categories raise different questions, approaches, and explanations. The review of Bigley & Pearce's trust forms, which they claim to be distinct for interaction among unfamiliar actors indicate that to a great extent, these strategies for developing trust among strangers are also relevant to familiar actors. This does not mean that the distinction between familiar and unfamiliar is of no relevance, but that a disposition to trust, calculus-based trust and institutional trust, or structural trust as suggested in the thesis, is not dependent on the distinction between familiar-unfamiliar. These forms of trust have different bases; disposition to trust is an individual quality, calculus-based trust is related to a particular rationality and structural trust to a formal basis, and these forms of trust are not dependent on familiarity or unfamiliarity. The level of familiarity, disposition to trust, and rationality in the trust process will affect the social construction of trust in

⁸ For instance, in *The Academy of Management Review* vol. 23, No 3 1998, a special issue on trust, seven out of 14 articles refers to Luhmann.

⁹ In their categorisation, Bigley & Pearce (1998) omit works on trust that are not within the field of organisational science. These are works that primarily focus on trust and the problem of social order, and works on conceptualisations, definitions and measurement of trust, and do not seem to have direct implications for organisational research.

different ways. In the exploration of the social construction of trust it is useful to make distinctions between the levels of familiarity.

The thesis focuses on the social construction of trust and the *pre-contractual*, *relational* and *structural* bases for trust which facilitates the development of *mutual understanding* which is the precondition for making the leap of faith into trusting. Each of these elements in the grounded theory will be explored further in the theoretical chapters when looking at sociological theory and sociological theory about trust.

2.4 Trust - individual cognition and social construction

Trusting is a social process, something that goes on between oneself and others. A person's propensity and basic disposition for trusting will affect the generation of trust. Even though this thesis does not focus on the psychological aspects, some psychological elements are presented below as an exploration of the premises for the social construction of trust.

A readiness to trust, how this readiness is shaped, how cognition affects trust, and the measurement of trust as an individual quality and inner feeling fall within the domain of psychology. Socio-psychological approaches explore trust on a group level; as transactions, behaviour, motivations, and choices. The loci are most often organisational contexts. In addition to rational choice, psychological and socio-psychological perspectives focus on cognitive processes at the individual and socio-psychological level to explain the development of trust.

Both socio-psychological and sociological perspectives study the social element in the construction of trust, but they emphasise different processes. Socio-psychological approaches focus on the social influence on psychological processes in the development of trust, while sociological approaches study the social basis for developing trust in the dynamic processes *in the space between* the actors and trust as an ordering element in the society.

The analytical distinction between the socio-psychological and the sociological approach is of relevance to this work. The main perspective in this thesis is sociological; trust is a social phenomenon, it is discussed in sociological terms as a social and relational quality, and the psychological aspects of trust are not emphasised in the analysis, other than as a state of mind

in the trust process. The analytical focus here is on trust as a social quality that is located in the space between the society and the individual – as a psychological state constructed *in the dynamics between the social and the self*. In the thesis the social context, “input” and bases of the trust process are explored rather than the psychological “throughput” process.

Individual cognition and social interaction are different analytical processes and fields of research, and the composite concept of trust focuses on the social bases as a common foundation for the development of mutual understanding. Distinctions between social and individual elements in the trust process are analytical and may not have great significance to the understanding of trust development in practical life. The distinctions are the basis for situating the grounded theory in the theoretical trust landscape and provide guidance for the selection of relevant literature which contributes to expanding the grounded theory.

The concept of mutual understanding connects the dynamic between individual cognition and social construction. The social construction of trust unfolds as interaction between the social foundations of trust and the individual’s basic disposition to trust. The basic disposition to trust affects the social construction of trust in practical life and it is therefore necessary to discuss it briefly. The social foundations for trust, the interaction between these foundations, and the mutual social construction processes that generates trust will be explored in part II as this perspective is not explicit in the literature, but a theoretical contribution from the thesis.

Basic disposition to trust

Individual disposition to trust is a psychological quality based on early-life experiences (Rotter 1971). Giddens (1993:92), with reference to Erikson, is connecting trust and ‘ontological security’, which is an emotional phenomenon rooted in the unconscious and provided through trusting experiences during childhood. A child’s trust develops as an element of its self-identity and through its experience of consistency and attention from the caretaker. Development of basic trust ‘implies a *mutuality* of experience’ this is a process where both child and caretakers behave reliably (Giddens 1993:95). If a child does not experience this, it is very likely that the child’s basic trust and disposition to trust will be damaged. Basic trust can be categorised as an individual element in a person’s pre-contractual basis for trust and is a precondition for trusting, for suspending doubt and making the leap of faith.

According to Giddens there is an *intimate* connection between ontological security, habits and routines. Habits and routines contribute to creating a predictable world and ontological security. 'Routine is psychologically relaxing' (Giddens 1993:98) and accomplishment of routines contributes to a reduction in social complexity. Breaking everyday routines has negative effects on trust, and results in confusion, embarrassment and distrust (Garfinkel 1963, Goffman 1967). Habits and routines confirm and maintain the tacit 'social contracts' and are social steps in the long-term process of institutionalising social practices and action patterns (Berger & Luckmann 1991). The guiding norms for practices and actions are gradually taken for granted and become incorporated in the pre-contractual basis for trust. The individual disposition to trust affects not only the threshold for making the leap of faith, but is a more or less prevalent element in any situation where trust is involved. From a sociological position this disposition is hard to determine analytically, and the focus in the thesis is on the social foundation for making the leap of faith, not on the individual disposition to trust.

2.5 Relational forms of trust

Trust in relationships, often called relational trust, is perhaps the most examined form of trust and is mainly presented as forms or types of trust. The types of trust are conceptualised from a socio-psychological perspective and categorised on the basis of rationality or behaviour in the trust setting; for instance as knowledge-, identification-, calculation-, affect-, or cognition-based.

There is a multitude of trust perspectives focusing on different relational aspects of trust, but these approaches are not congruent. When Misztal (1996), for instance, discusses trust as passion in relation to friends and family, this is about trust as a relational quality. In an analysis of trust, modernity, and role segmentation; Seligman (2000) focuses on trust and relational qualities, and Zucker (1986) analyses relational trust as process- and characteristic based trust. I will return to these sociological contributions to the study of trust in subsequent chapters. In this thesis the discussion of trust as a relational quality is first and foremost made with reference to forms of familiarity and the content of role expectations.

Relational trust in the organisation literature

While the basic disposition to trust is considered as a ‘pure’ individual and psychological quality affecting trusting, studies in the socio-psychological tradition are mainly focused on rationality, psychological considerations, and cognitive processes for developing trust. Even though these studies also are about trust as psychological processes, they have a broader focus than basic disposition. Trust is categorised in relation to different forms or bases. It is analysed in terms of processing and as various strategies for handling of information, or as processes moving between different forms or stages of cognition, or as forms of rationality. These analyses are most often conducted in organisational studies and often based on empirical case studies.

Trust has gained increasing interest as a subject in studies of organisations and inter-organisational interaction, from the 1990’s for example, in edited volumes by Gambetta (1990), Kramer & Tyler (1996), Lane & Bachman (1998) Bijlsma-Frankema and Costa (2005) and the *Handbook of Trust Research* (Bachmann & Zaheer 2006). One of the latest trends in organisation research is studies of trust and culture where the focus is on trust across national cultures, on inter-organisational and intra-organisational trust challenges (Saunders et al. ed. 2010).

Conceptual issues are less frequently discussed in the organisational literature; it mainly focuses on trust in specific empirical cases among a wide range of organisational settings (Bachman 2001, Möllering et al. 2004). One exception is the collection of articles edited by Lane & Bachman (1998). Lane presents a comprehensive overview of theories and issues in the study of trust. Bachman discusses conceptual issues in addition to empirical analyses of trust between organisations. Trust has been a topic in periodicals in different fields, and there are special issues with multidisciplinary views on trust in organisations.¹⁰

The analytical emphasises can be on the propensity to trust (Mayer et al. 1995). There are studies of various bases or rationalities for trusting; such as trust based on calculation, knowledge or identification (Lewicki & Bunker 1996), trust based on deterrence, knowledge

¹⁰ For instance The Academy of Management Journal (1995/38-1), Academy of Management Review (1998/23-3), Organisation Studies (2001/22-2), Journal of Managerial Psychology (2004/19-6) and International Sociology (2005/20-3), frequent articles on trust in journal of Management. The above mentioned publications are mainly in sociology and social psychology and from 2011 the Journal of Trust Research.

or identification (Sheppard & Tuchinsky 1996), cognition-, behavioural-, or emotional/affect-based trust (Lewis & Weigert 1985, McAllister 1995) or cognitive, behavioural and emotional trust (Gillespie & Mann 2004) and trust based on cognitive, normative, and calculative perspectives (Bachmann 1998). The different perspectives on trust and trust bases have elements in common and refer to characteristics of the bases and prevailing rationalities in the process of trust development. In analyses of the multi-faceted character of trust, three main forms of trust are suggested: cognition-, affect-, and behavioural-based trust (Lewis & Weigert 1985, Lewicki & Bunker 1996). These trust forms merge several trust forms together. Apart from the studies by Lewis & Weigert and Bachmann, the contributions above mainly focus on the psychological basis for considerations of trust.

As previously indicated, the focus in the thesis is on trust in the relationship *between* actors and as a societal quality. In this perspective the psychological and socio-psychological categorisations of trust forms are useful as a means of specifying the content of expectations in empirical analysis of various bases and rationalities for development of expectations (see for instance the model of expectations in chapter 9).

In analyses of trust as a process of social construction, psychological and socio-psychological approaches would extend and specify the content of expectations and provide insight in the rationality of social interaction. If, for instance, actor A has a calculus-based approach as a frame of meaning, while actor B has an emotional approach, mutual understanding cannot be taken for granted, it has to be negotiated and may not even be achieved. If mutual understanding is taken for granted in situations with different action rationality among the interaction partners, there is a high risk of unfulfilled expectations and no generation of trust – and that trust even may turn into distrust at some point.

The following section discusses calculus- and identification-based trust as these forms of trust are two approaches to relational trust which are common within the field of organisational studies. The organisation literature is more relevant as examples of analysis of empirical cases of trust processes than as explorations of conceptual issues. In this literature there is a predominance of empirical cases exploring the development of relational trust and the perspective is mainly socio-psychological. In the thesis these studies are of relevance as a description of different qualities and variation of trust forms and as an exploration of the content and basis of trust relations.

Deterrence-based trust

In a reference article with a cross-discipline overview of trust, three forms of trust are suggested; *relational*, *calculative* and *institutional* trust. In addition is the concept *deterrence-based* trust discussed (Rousseau et al. 1998).

Relational trust ‘derives from repeated interactions over time between trustor and trustee’ and ‘information available to the trustor *from within the relationship itself* forms the basis of relational trust’ according to Rousseau et al. (1998:399). Repeated interaction as well as information from within a relationship is based on familiarity and experience, and positive experiences contribute to maintaining and reinforcing trust.

Deterrence-based trust, on the other hand, is not a form of trust. It is control based on sanctions, fear and almost equal to low levels of distrust (Rousseau et al. 1998).¹¹ According to Shapiro et al. (1992) deterrence-based trust is based on fear of punishment as prevention of inconsistent action. I hold that trusting has to be based on the possibility to choose exit, which means that trust cannot be based on deterrence. On the other hand; structural trust, a form of generalised trust based on legitimate formal structures and the possibility of sanctions, can have some superficial similarities with deterrence-based trust. It is the possibility of sanctions which generalises trust between strangers and over time and distance. However, structurally based trust is not the same as deterrence-based trust; the social bases are different. Structural trust is based on the facilitating and securing potential of formal structures. Contracts and sanctions support and secure trust; they are platforms for making the leap into faith and bestowing trust (see chapter 10). In a discussion of trust in work relationships, Lewicki & Bunker (1996) suggest that deterrence-based trust is included in calculus-based trust; fear of punishment and calculation of risk and possible reward are similar motivators.

Trust is multi-faceted and multi-dimensional (Luhmann 1979, Lewis & Weigert 1985, Barber 1983) and the distinction between deterrence-based trust and structural trust are one of the indications of this. The characterisation of trust depends on what is considered as the defining element or basis of it: When it comes to deterrence-based trust, deterrence strategies facilitate

¹¹ There is a debate in trust research whether contract and sanctions are devices for trust or for control (Shapiro 1987). See also Special Issue on The Trust-Control Nexus in Organisational Relations, Long & Sitkin 2006, for an overview of this debate, and whether trust is a substitute for control and sanctions (Rousseau et al., Möllering 2005, Das & Teng 1998). The debate also focuses on the relationship between trust and contract (Deakin & Michie eds. 1997, Deakin & Wilkinson 1998, Deakin 2006).

trust, in calculus-based trust it is the calculation of risk that is the focus as the defining element for trusting. When it comes to structural trust it is the assurance provided by formal structures which provides the basis for trust. There is another difference between the three approaches outlined above; calculation and deterrence is related to individual rationality, whereas structural trust is related to the social level, the analytical focus is on formal structures as a common basis for trust.

Calculus-based trust

Calculus-based trust is based on rational choice and related to economic exchange. Development of trust is based on calculation of risk and advantages, of interests and resources (Bachmann 1998) or of 'the value of benefits and loss of cheating (Lewicki & Bunker 1996:120). This rational choice approach to trust (1994) is common in agency theory and transaction costs economics as well as in game theory approaches to trust (Lane 1998) and is mainly a description of trust between strangers or in professional relations. Möllering (2006) provides a relevant examination of different aspects of calculus-based trust. According to Sheppard & Tuchinsky (1996) and Lewicki & Bunker (1996) this form of rationality is characteristic of the initial stage of trust development in a professional relationship. In a model of development of trust over time (Rousseau et al. 1998:401), calculative and relational trust is indicated on a time line. Calculative trust is characteristic of the early phase in a relationship and can through repeated interaction develop into relational trust, which characterises the mature phase of a relationship. A continuous relationship may be based on calculus-based trust, but this can over time and after repeated interaction become transformed into knowledge and familiarity based trust. Even though calculus-based trust may develop into relational trust through interaction over time, it is questionable how much analytical power there is in categorising trust forms as they do not tell us much about processes.

The existence of a common element of calculative rationality in a relationship is not sufficient as a basis for trust. Calculation is not trust; calculation is a mental process and an attitude, not a social basis. If actor A is considering whether to trust actor B or not, A needs to base these considerations on knowledge, information, emotions, and some taken for granted assumptions. These elements are bases for trust considerations or calculations of possible risk and gain, but the final step, the trusting, is beyond reason and calculation (Simmel 2004:179). The suggestion here is that a calculative attitude can be one of several possible rationalities in

an interaction, and trust is then based on a mutual understanding of this rationality as basis for the interaction.

Behavioural decision theory focuses on trust from a rational choice perspective, on trust as a game among strangers, with reference to studies by Axelrod (1984), Deutsch and Krauss (1962) and Bigley & Pearce (1998). Game theory and rational choice theory constitute a separate research field and are out of scope for this work. These perspectives differ from sociological approaches to trust (Möllering 2006a), and it can be questioned as to whether rational calculation in Coleman's (1994) perspective has anything to do with trust or whether it represents a different logic (Bachmann 2006). Calculus-based trust is different from relational trust (Rousseau et al. 1998), but it is a trust form that can be relevant in the early stage of a relationship as well as in stable relations based on calculation of possible risk, deterrence, and 'the value of benefits and the costs of cheating' (Lewicki & Bunker 1996:120). To conclude this discussion; according to McAllister (1995:25) there are two principal forms of interpersonal trust bases; cognitive and affective bases, and McAllister refers to empirical evidence from social-psychological literature which supports this argument. Deterrence- and calculus-based trust can be categorised as affective bases for trust, or not as trust bases, but as rationalities for a decision on whether to trust or not.

Institutional based trust

Institutional trust is the third major approach to trust among strangers (Bigley & Pearce (1998). Institutional trust is not clearly defined by Rousseau et al. (1998: 400), this form of trust can be a variation of deterrence-based trust and can 'ease the way to formulating both calculus-based trust and relational trust.' This form of trust is either dependent on 'guardians of impersonal trust' (Shapiro 1987), which are the social mechanisms facilitating trust among strangers, such as procedural norms, structural constraints, and insurance-like arrangements or it is facilitated by institutional arrangements (Zucker 1986), such as rational bureaucratic organisations, professions, regulations, and laws. The role of structural arrangements will be further discussed in the chapter *Structural trust* (chapter 10), from the perspective that this form of trust is related to pre-contractual and structural elements as trust bases. The concept of structural trust is a relevant form of trust not only to describe the relationship between strangers, but between familiar actors as well. Structural bases of trust are particularly relevant in relationships with high risk and low level of predictability, for instance

relationships maintained over time or distance. Trusting is a complex social process and in most situations there is a mix of trust bases, which can be transformed through repeated actions or particular events which undermine or maintain trust processes.

Identification-, behavioural- and cognition-based trust

The third level in Lewicki & Bunker's (1998) model of gradual evolution of trust is identification-based trust, a form of trust which is reserved for relatively few relationships. This form of trust is based on identification with the other's desires and intentions and involves a deep level of mutual understanding of needs, choices, preferences and intentions, and so that 'each can effectively act for the other' (Lewicki & Bunker: 122). This form of mutual understanding appears to be very demanding to achieve, even within family relationships. It involves not only identification with the other, but also willingness to act in accordance with that identification. In reality, violation of identification-based trust will probably be experienced as betrayal, and this form of trust violation is hard to reconstruct (Weber & Carter 2003).

Trust suspends the social risk generated by the other's free will and unpredictability. The need for trust arises in social relationships, 'the primary function of trust is sociological rather than psychological' (Lewis & Weigert 1985: 969). Trust does not have a single pure basis, but has cognitive, emotional, and behavioural elements. These elements are complementary and the mix between them varies contextually and situationally. They 'are interpenetrating and mutually supporting aspects of the one, unitary experience and social imperative that we simply call "trust".' (Lewis & Weigert 1985:971).

Trust is based on cognitive processes; actors consider whom to trust and under what circumstances, familiarity and knowledge are the basis for these decisions (Lewis & Weigert 1985:970). This is the leap of faith, which according to Lewis & Weigert is a 'cognitive "leap", and 'the cognitive content of trust is a *collective* cognitive reality that transcends the realm of individual psychology,'. This involves a 'trust in trust' (Luhmann 1979), an assumption that others share our bases for trust. From a sociological perspective cognitive scripts and shared frames for understanding are emphasised as the basis for cognitive trust (Bachman 1998).

Cognitive scripts and shared frames for understanding are the tacit bases for social action. They are pivotal for facilitating social relations and interaction, and provide the basis for the

development of mutual understanding. The term *pre-contractual* is suggested here to characterise cognitive scripts and frames for interaction bases for trust. Others, such as McAllister (1995) categorise pre-contractual elements such as past interaction, social similarity, and organisational context as the bases for cognition-based trust. These elements are of a different kind than those suggested by Lewis & Weigert (1985) and Bachmann (1998) as cognition-based trust. This is an additional example of different perspectives on trust in sociology and social psychology. Knowledge based trust (Lewicki & Bunker 1996, Sheppard & Tuchinsky 1996) is founded on information, interaction, and communication; which are social processes and facilitate predictability. These bases of trust have much in common with McAllister's bases for cognition-based trust.

Behavioural trust is the third form of trust in Lewis & Weigert's (1985) perspective. This form of trust is based on acting *as if* one is certain and this trustful action provides the basis for further development and maintaining of trust. To act as if one is certain is about suspending doubt, and as if there is a confirmed mutual understanding. This perspective will be further discussed throughout the thesis. Behavioural trust seems to have much in common with interaction based trust, and as suggested in the thesis, process based trust, which is one of the three relational forms of trust. This will be discussed further in the chapter about *Relational trust*, (chapter 9).

In summary, the perspectives above see trust as a relational quality. It is suggested that the perspectives are descriptions of different relational bases for the development of mutual understanding. This raises the question of whether trust is possible in situations where the actors are governed by different social foundations as bases for their relationship. For instance, if A has a calculative base for considering trust in a relationship with B, and B has a cognitive approach – will the interaction between the two contribute to development of trust? From an analytical point of view, the initial answer is no, the two do not have mutual understanding. On the other hand, they may develop mutual understanding through repeated interaction, and the basis for this will be a mutual confirmation of a calculative, cognitive, or what-ever the common basis is for the relationship. If A and B do not develop trust, the question of whether there is a calculative, cognitive, or behavioural approach may or may not give analytical clues to why the development of trust fails. An investigation of the bases for trust does not give sufficient knowledge about trust processes. Möllering (2006) points out that the exploration of various forms and bases of trust does not tell us anything more about

trust. Perhaps not, although it provides some insight into the various elements of input and bases for developing trust, there is no insight into the construction of trust as a social process and trust as a general social phenomenon. Relational trust is a wide category. It involves trust based on familiarity and/or interaction. The different forms of relational trust described in this section, can also be categorised as different kinds of familiarity as bases for mutual understanding, varying from calculation to identification.

2.6 Conclusion – definition and further development

There is no common agreement on the definition of trust, but based on a collection of cross-disciplinary scholarly writing, Rousseau et al. (1998) presents a definition based on a socio-psychological perspective. This definition has gained ground in studies of trust in organisational contexts: ‘Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another’ (Rousseau et al. 1998:395). According to Rousseau et al. there could be fairly broad consent on this definition, which emphasises individual mental processes as sources of trust rather the social dimensions – the psychological rather than sociological aspects of trust. Individual aspects of trust, such as one’s psychological state, intentions and expectations about others intentions, are elements that to a lesser degree capture social, constructive and mutual aspects of trust. From a sociological point of view, these are the key elements of what trust and trusting is about.

Moreover, as the definition in Rousseau et al. focuses on individual mental processes as sources of trust it under-communicates the social dimensions of trust. The social foundations and social construction of trust are invisible in this definition, but they are the theoretical and explorative focus of this thesis, and will be further discussed in the theoretical part. An exploration of the trust paradox demands a focus on trust and the social construction of trust. Social change is about change in the basis of trust and about creating new strategies for building trust. Social actions need trust – when it is threatened, it is necessary to reconstruct it or to exit, to withdraw from action.

As each discipline explores trust from its particular perspective, a broad range of trust definitions exist. Apart from Rousseau et al. (1998) little effort has been made to integrate the different perspectives (Hosmer 1995, Lewicki & Bunker 1996, Bigley & Pierce 1998, Lane

1998, Bachmann 1998, Möllering et al. 2004). The diversity in trust approaches represents an academic challenge as well as a potential for interdisciplinary work. The possibilities are related to the concept of 'connectability' (Möllering 2006:5) which refers to the characteristic of trust as an everyday quality that most of us have experienced and can relate to. At the same time trust is an analytical concept. As an analytical concept, trust refers to basic social challenges in social interaction, and is discussed in most social sciences. This familiarity on two levels is a possible platform for future interdisciplinary research.

One challenge in interdisciplinary work is to agree about some defining qualities of trust. This challenge is difficult to solve as the classification of qualities is inherent in the disciplinary perspectives. Perhaps interdisciplinary work on trust has to presuppose differences, and therefore clarify perspectives and defining qualities as a platform for works on trust. Another challenge is about building cumulative knowledge of the phenomenon in addition to the 'impressive numbers of articles which analyse specific empirical cases and suggest various classifications of trust' (Bachman 2001:339). The theoretical fruitfulness of comprehensive classification can be questioned, as classification studies do not necessarily generate deeper knowledge about trust as a phenomenon. Qualitative inductive studies, such as those based on grounded theory methodology, can generate deeper empirically based insight, but to contribute to cumulative development of sociological knowledge, I suggest that an empirically grounded theory has to be integrated with existing sociological theory, or at least to be positioned in relation to it.

Trust as a social process and how micro level trust interactions with trust processes on the macro level are understudied. To expand our knowledge about this it is necessary to undertake empirical studies of trust processes in micro and macro contexts. Grounded theory methodology is a relevant tool for exploring understudied processes as the method gives primacy to empirical discovery and new insight as the foundation for theory generation. The exploration of trust in this thesis is therefore based on grounded theory methodology as a method for discovery, but to develop the empirical knowledge further, it is necessary to elaborate on the grounded theory conceptualisation using classic sociological theory. The methodological part of the thesis is therefore also a discussion of the grounded theory methodology conditions and perspectives on the integration of a grounded theory of trust into sociology.

Further development

In order to move trust research forward, conceptual development related to trust as a dynamic process and the relationship between trust on the micro and macro level has to be emphasised. The thesis contributes to reducing this gap in knowledge by elaborating on a dynamic perspective on trust that includes the social context of trusting. The composite concept of trust and mutual understanding conceptualises trust as social construction and sense-making embedded in social macro contexts. The conceptualisation is a middle-range theory, a formal grounded theory of trust as a social process. The terms and methods will be elaborated in the following methodological chapters, and are therefore not discussed further at this point.

The methodological chapters clarify the hallmarks of grounded theory method, position the theory in the general theoretical landscape, and discuss the process of theory generation and the integration between an empirically grounded theory and sociology. The main elements of the grounded theory of trust was generated during the work on my master thesis almost twenty five years ago (Nordnes 1993), and the theory has been applied regularly through-out my work as an applied researcher. The application functions as a further collection of data and a test of the work and fit of the theory; that shows the functioning and the explanatory power (validity) of the theory. The aim of the thesis is to explore trust as a social process through a theoretical study of how an empirically grounded theory of trust can be *discussed in relation to* and *integrated with* general sociological theory and some of the main sociological works on trust. The discussion of the concept generation is therefore based on a work undertaken twenty five years ago. This thesis develops the sociological aspects of the grounded concept and explores how an empirically grounded theory can be expanded through application of general sociology and how the explanatory power of sociological theory can be enhanced by a grounded theory.

3. GROUNDED THEORY: METHODOLOGICAL ROOTS

'Sociologists live, and suffer, from their dual task: to develop generalisations and to explain particular cases. This is the raison d'être of sociology as well as its inherent tension'.¹²

– GUENTHER ROTH

The thesis aims to make a sociological grounding of the composite concept of trust. This means discussing and integrating a grounded theory concept with sociological theory and involves an exploration of the concept from methodological and theoretical perspectives.

The working hypothesis here is that the theoretical exploration of trust will show that the analytical power of the grounded theory concept is strengthened through integration with sociology, but there seems to be a 'reluctance' in grounded theory towards conceptual integration with traditional theory (read sociology) while sociology seem to be uninterested in this subject. Does this reluctance have roots in grounded theory or is it a general misinterpretation of the method? A discussion of this question demands an exploration of the methodological foundations in grounded theory to enable integration between grounded theory concepts and sociological theory and the methodological part is also a positioning of the conceptualisation of trust in the methodological landscape. This means that the subject *trust* is not focused upon in this chapter of the methodological section, but in the next two chapters of this part of the thesis.

The following three chapters discuss the methodological foundations for grounded theory, the methodological influences on the composite concept of trust, and how the methods and conceptual development connects with sociological theory. The methodological discussion is also an analytical exploration of an empirical grounded theory of trust, referred to as the composite concept of trust.

3.1 The empirical work and fit of concepts

In 1967 Barney G. Glaser & Anselm Strauss, in the pioneering book *The Discovery of Grounded Theory: Strategies for qualitative research* introduced *grounded theory* as a new

¹² Roth in Weber 1978:xxxvii consecutive

sociological research methodology. Grounded theory is for them an inductive method introduced as an alternative to verification and ‘theory generated by logical deduction from *a priori* assumptions’ (Glaser & Strauss 1967:3).¹³ They argued for ‘the discovery of theory from data systematically obtained from social research’ (ibid: 2) and aimed to strengthen qualitative, sociological research by freeing it from the demands of verification of grand theories and logic-deductive theorising. Their aim was to encourage dynamic theory generation based on empirical data and a general method of comparative analysis (Glaser & Strauss 1967). The method has gained widespread use, but is contested among its adherents as well as in the wider scientific community. The main disagreements will be discussed further in this chapter.

The composite concept of trust has been applied in various research projects and has been presented to researchers and lay people throughout my work as researcher in applied social science. The concept *works and fits*. In grounded theory this means that a concept has explanatory power; here it explains trust processes in various contexts; it has predictable and interpretative power and there is a good fit between theory and empirical data. When presented as a concept, people clearly recognise the analysis and description.

The strength and distinctive stamp of grounded theory is the empirical grounding of concepts; the *work and fit* of concepts in relation to the empirical phenomenon under investigation (Glaser & Strauss 1967). But do empirically grounded concepts *work and fit* with existing sociological theory? Do they expand sociological explanation, prediction and interpretation and enhance better fit between theory and data?

The classic grounded theory literature does not appear to examine this issue in detail. Why is the focus in grounded theory literature mainly on methods and reflections on the development of concepts and their empirical work and fit, and not on their relationship to existing knowledge? The suggestion here is that this lack of focus can be related to the methods and methodological foundations of grounded theory, to procedures and epistemological roots. These elements contribute to inhibit integration between grounded theory and existing theories. Lack of integration is a barrier against contributions from grounded theory to cumulative development of knowledge in existing theory.

¹³ According to some theorists grounded theory also has elements of abduction (Bryant & Charmaz 2010:16).

This chapter is therefore a discussion of the divergent epistemological roots of grounded theory and how they may challenge development of cumulative knowledge across knowledge communities. The role of classic grounded theory method in the cumulative development of knowledge in existing theory is an under-studied topic, and the aim here is to expand the existing knowledge in this field.

3.2 Grounded theory – two intellectual traditions in one method

Grounded theory has now become one of the major approaches in qualitative research applied across a range of disciplines and subject areas (Denzin 1998b:329, Hood 2010, Charmaz 2008, Midré 2009). Practice varies; grounded theory has been described as a ‘landscape’ and a ‘family of methods claiming the grounded theory method mantle’ (Bryant & Charmaz 2010a:11). There is thus no agreement on what constitutes a grounded theory (Dey 2010), and method is contested within the grounded theory community. The main contested issues are: whether Glaser or Strauss represent the ‘correct’ version including the main direction for future development; the classic grounded theory or the constructivist approach (Glaser 1992, 2001, 2002, 2003, 2004, 2005, 2009, Bryant 2003, Atkinson & Delamont 2005:833, Clarke 2005:4, Bryant & Charmaz 2010a, 2010, Charmaz 2009:134); and what is the most influential philosophical basis for the method; quantitative methodology, symbolic interactionism or positivism (Annells 1996, Glaser 1998:22, Guba & Lincoln 1998, Alvesson & Sköldberg 1994, Charmaz 2008).

The method Glaser & Strauss presented in 1967 in the *Discovery* is rooted in two intellectual traditions; quantitative methodology and interactionism (Glaser 1992, 1998:22, Alvesson & Sköldberg 1994, Annells 1996, Guba & Lincoln 1998, Strauss & Corbin 1998). The juxtaposition of these two traditions creates an inherent ambiguity between positivism and inductive perspectives, and it opens up the method for future development in positivist/classic or constructivist directions and for incorporation into interactionist and interpretive methods in general (Glaser 1992, 2001, 2002, 2003, 2004, 2005, 2009, Bryant 2003, Atkinson & Delamont 2005:833, Clarke 2005:4, Bryant & Charmaz 2010a, 2010b, Charmaz 2009:134).

After some years the two founding fathers of grounded theory drifted in different methodological directions. They, and in particular Glaser, contested the other’s development and version of the method (Glaser 1992, 1994), and both claim to represent the authentic

methodology (Glaser 1978, 1992, Strauss & Corbin 1998a). The final schism between Glaser & Strauss came in the late nineteen eighties. Strauss & Corbin introduced the book *Basics of Qualitative research* (1988), which Glaser described as a misconception, almost as a destruction of grounded theory. The *Basics of Grounded Theory Analysis* (Glaser 1992) was introduced as a discussion and correction of Strauss & Corbin. One of Glaser's main objections was that the coding paradigm and axial coding model of Strauss & Corbin are theoretical preconceptions and force coding of data. According to Glaser this hinders the emergence of new categories, concepts and theory. Glaser continues to defend grounded theory against the forcing of data.

After the turn of the millennium, Glaser worked to prevent grounded theory being 'taken over' by symbolic interactionism, transformed into traditional qualitative data analysis, or conceptualised as constructivist grounded theory. According to Glaser, these perspectives are a remodelling of grounded theory into traditional, descriptive qualitative analysis. As a result core elements such as rigorous methods, conceptualisation and theoretical coding will disappear. Glaser therefore continues to defend grounded theory as a general method independent of theoretical perspectives and that uses all kinds of data, including quantitative data (Glaser 1992, 1998, 2001, 2003, 2005, 2007).

Now there are at least three main versions of grounded theory: the classic version, often called the Glaserian version; the Strauss-Corbin school, which is developing in traditional, inductive and qualitative directions and is perhaps the most influential variant to-day, and what is often called the second generation grounded theory; the constructivist version, mainly developed in the 21st century by Charmaz (Bryant & Charmaz 2010, Charmaz 2008).

3.3 Three methods in one?

The three variations of grounded theory all have the aim of generating theory from empirical data and have the main procedures of the method in common. What varies between the three versions is how the method is put into practice and interpretations of the procedures, how grounded theory relates to other theories, and the philosophical basis for the method. The methodological recommendations and the epistemological and ontological foundations are also different. Over time the three variations have emphasised different elements of grounded theory. In any discussion of the relationship between grounded theory and traditional theory,

it is necessary to clarify to which of the theoretical communities one relates; otherwise the discussion will be too complex and comprehensive. The focus in the thesis will be on the classic, Glaserian variant of grounded theory. The other two; the Straussian and the constructivist variant developed by Charmaz, will be revisited and briefly explained later on.

A thesis is a statement of knowledge and a contribution to development of knowledge. Statements are transformed into scientific knowledge through a process of social construction, trust and acceptance in a community of knowledge. Scientific paradigms, methods, theories and empirical fields define the community and are the foundations of mutual understanding and trust among the members. A paradigm can be defined as a world view; a set of basic beliefs about the world and the individual's place in it (Guba & Lincoln 1998:200). Paradigms frame the construction of meaning, direct analytical focus, and influence the selection of what to include and exclude in collection of data, in analysis, and construction of theories. Scientific positioning of a work is necessary to establish a foundation for acceptance in a community of knowledge, creating a frame of reference and clarifying the main methods. In classic grounded theory though, neither scientific positioning nor the relation to extant theory are emphasised. This lack of focus is related to methods as well as paradigm. Here, a discussion of these is necessary to get a better understanding of how a theory developed through grounded theory methodology can find a position in the existing scientific landscape.

In a perfect world, a grounded theory concept would have analytical roots in one of the three versions. In the real world, complexity and diversity mean that a grounded theory work can belong methodologically to more than one of the versions. This complicates the discussion of a grounded theory concept. The composite concept of trust, for instance, is not purely based on one of the grounded theory versions, but can be related at least to two of them. The main methodological influence came from the classic version of grounded theory (Glaser & Strauss 1967), but the current constructivist version by Charmaz (2008) is relevant as my conceptual work is heavily inspired by symbolic interactionism. The work on the composite concept of trust has roots in Glaserian procedural rigour, while the methodological foundation is that of interactionism and constructivism which Strauss' Chicago School influence brought to the method and which Charmaz has developed further as constructivist grounded theory.

The methodological variety requires a reflection on the paradigms in which the grounded theory is rooted. The *inquiry* paradigm defines for the *inquirer* ‘what is important, what is legitimate and what is reasonable’ (Annells 1996:383 with reference to Sarantakos 1993:30, Guba & Lincoln 1998). The inquiry paradigm is the lens that filters what the researcher sees, hears and interprets. It influences the focus and what to exclude and this moulds the analysis and development of theory. Grounded theory is not only a method for collecting and analysing data; it is a perspective on knowledge, research and on how things are related. According to Clarke (2005:4) it is a *theory/methods package* containing the ‘integral – and ultimately non-fungible – aspects of ontology, epistemology, and practice, as these are co-constitutive’ in the methodology of grounded theory.

3.4 Intellectual roots in positivism and pragmatism

The historical context of the seminal work of Glaser & Strauss was a period characterised by positivism as the prevailing perspective in social sciences. Positivist science strives for objective knowledge and general laws based on systematic observation, replicable experiments, operational definitions of concepts, testing and verification of logically deduced hypotheses and quantitative methods. Quantitative methods had precedence over qualitative methods, which were considered by positivists as less- or even non-scientific (Charmaz 2008, Bryant & Charmaz 2010). Inductive, qualitative and interpretative methods challenged this epistemology – at that time as they do today.

Glaser & Strauss’s educational backgrounds were in different sociological schools, but they cooperated closely throughout the 1960s. Their studies of health care, in particular caring for the dying, were the basis for *The Discovery*. Each of them moulded different elements of the theory. Glaser’s background was at Columbia University, a university with strong traditions for quantitative methods and development of middle-range theories; that is theories based on intermediate minor working hypotheses and grand theory. Strauss had his intellectual roots in pragmatism and symbolic interactionism with the focus on action and construction of meaning (Glaser 1998, Charmaz 2003, Clarke 2005, 2010, Bryant & Charmaz 2010). Before his collaboration with Glaser, Strauss played a significant role in advancing the Chicago School social constructionist analyses (Bryant & Charmaz 2010:37). Strauss had worked with leading qualitative Chicago school scientists; the symbolic interactionist Herbert Blumer and was influenced by the pragmatist philosopher Georg H. Mead (Strübing 2010). The *Discovery*

is inspired by Blumer, for instance in the critique of verification and quantification and the discussion of sensitising concepts, which Blumer (1954) discusses. After a few years, the two founding fathers drifted apart intellectually and developed the methodology in different directions.

The aim of grounded theory is to generate theories grounded in empirical data and analysed through systematic procedures and rigorous codifying (Glaser & Strauss 1967, Glaser 1978, 1998, 2007). According to Glaser systematic procedures, conceptualisation and development of theory are the main elements that separate grounded theory from most qualitative research, which he defines as research that first and foremost aims at accurate descriptions (Glaser 2001, 2003, 2004). Strauss moved the method in constructivist directions by emphasising action and construction of meaning (Strauss & Corbin 1998, Strauss & Corbin 1998a, Bryant & Charmaz 2010a:8). In addition Strauss has, in cooperation with Corbin, strengthened the positivistic elements of grounded theory by moving the method towards verification (Glaser 1998, Charmaz 2008) and through the development of ‘axial coding’ and ‘coding matrix’ (Glaser 1994).

Comparative analysis together with a perspective that views theory as emergent are the basic elements of grounded theory (Glaser & Strauss 1967, Glaser 1978, 1992, 1998, 2001, 2005, 2007). These elements emphasise the process character of the methodology and importantly, ‘theory as an ever-developing entity, not as a perfected product’ (Glaser & Strauss 1967:32). The generation of grounded theory is an iterative dynamic between the collection of empirical data and refinement of the theory, where new data can expand the scope and analytical level of the theory.

The key elements of grounded theory: generation instead of verification, induction instead of logic-deduction, comparison instead of exemplification, and the attempt to bridge the qualitative-quantitative methodological divide as well as the theory-method divide – positioned grounded theory as an alternative to the prevailing positivism (Glaser & Strauss 1967, Kelle 2005, 2010, Holton 2010a). Glaser & Strauss ‘contested notions of methodological consensus and offered systematic strategies for qualitative research practice’ (Charmaz 2008:5).

From the outset grounded theory was positioned in contrast to traditional sociological theory and method. The ambition of raising the status of qualitative research, the focus on research

as discovery of emerging concepts from the data, and the rejection of verification and theoretical preconceptions combined with an articulated opposition against positivism (Glaser & Strauss 1967) all contributed to a new and alternative methodology. To-day this is considered to be a ‘counter culture’ alternative by the adherents of Glaserian grounded theory (Holton 2010a: ii). In retrospect, a closer look reveals the influence of positivism in grounded theory as a ‘new’ alternative. This influence is related to the assumptions about the researcher as a neutral and scientific observer and the emphasis placed on methodological rigour, recognising that theory is emerging from data, not as a result of the researcher’s constructions and the co-constructions between researcher and actors in the field (Bryant 2002, Charmaz 2003, Clarke 2005).

3.5 Classic, Glaserian grounded theory

Strauss died in 1996 and his theoretical legacy is now carried forward by Corbin. Glaser still defends the purity of the original, mainly referred to as *classic* grounded theory (2004, 4th paragraph), *Glaserian* theory or *orthodox* grounded theory.¹⁴ In the rest of this thesis the term grounded theory refers to the classic and Glaserian version.

There are several reasons for this: the study of trust is based on the *Discovery* as handbook of methods, Glaser defends classic grounded theory as *the method* of grounded theory, and the general image of grounded theory seems to refer to the classic version.¹⁵ In addition, classic grounded theory is in a rather distinct position in a multitudinous landscape, and this position delimits the focus for this discussion. Glaser is still a leading force in promoting the method and asserts that the new versions are not grounded theory at all (Glaser 1978, 1992, 1998, 2001, 2005, 2007, 2009, 2011). He is eager to ‘protect’ the classic version from being applied as descriptive qualitative data analysis, adopted by theorists using preconceptions that force data, or are co-opted and transformed by constructivists or postmodernists (Glaser 2002, 2003, 2004, 2005, 2007, 2007a, Glaser & Holton 2004).

¹⁴ ‘The Grounded Theory Institute is dedicated to helping people learn about authentic Grounded Theory (otherwise known as Glaserian, Classic, or Orthodox Grounded Theory)’. Friday, October 28, 2011, Jillian Rhine, <http://www.groundedtheory.com/>, viewed 14.11.11.

¹⁵ As researcher in applied social science I have been using grounded theory methodology and methods for more than twenty years. My experience is that the methodology appears to have a weak legitimacy among researchers unfamiliar with it. Their idea of the method seems to refer to the classic version, but with some misinterpretations – the importance of analytical rigor is underestimated and lack of prior theoretical studies overestimated.

To promote the methodology Glaser has founded The Grounded Theory Institute which provides the following definition of grounded theory:

All research is "grounded" in data, but few studies produce a "grounded theory." Grounded Theory is an inductive methodology. Although many call Grounded Theory a qualitative method, it is not. It is a general method. It is the systematic generation of theory from systematic research. It is a set of rigorous research procedures leading to the emergence of conceptual categories. These concepts/categories are related to each other as a theoretical explanation of the action(s) that continually resolves the main concern of the participants in a substantive area. Grounded Theory can be used with either qualitative or quantitative data.¹⁶

Grounded theory, along with knowledge generated by other methods, is a contextual social construction which is dynamic and subject to change and development. The strong defence of classic grounded theory, on the other hand, appears as an attempt to prevent development and transformation of knowledge. During the last twenty years Glaser stands out as engaged in an endless defence of the seminal work, discussing the same issues with repetition and a few variations without altering or extending the main positions.

Glaser's insistence on the discovery and emergence of concepts, that research should not be based on preconceptions, and that grounded theory is a general method making researcher positioning unnecessary (Glaser 1992, 2002, 2005), indicates an objectivist position in contrast to constructivist position. The viewpoint advanced in this thesis is that the Glaserian position gives grounded theory a static and repetitive stamp, and Glaser appears to echo the theoretical capitalists whom the methodology was intended to oppose. Charmaz, on the other hand, a former student of Strauss, has developed a constructivist approach to grounded theory (2006, 2008, 2009). Constructivist grounded theory is strongly rejected by Glaser (2002, 2004, 2004a, 2005, 2009, 2011), a rejection probably influenced by his roots in positivism. Second generation grounded theory scholars, for instance Morse et al. (2009) argue for further development of grounded theory in accordance with theoretical progress in social sciences. Theoretical progress in these cases means applying grounded theory elements together with other methods, for instance dimensional analysis (Bowers & Schatzman 2009), situational

¹⁶ Grounded Theory Institute Homepage, 16.03.2009, by Jill Rhine, <http://www.groundedtheory.com/what-is-gt.aspx>, viewed 16.02.11.

analysis (Clarke 2009) or including new theoretical perspectives, such as incorporating constructivism into grounded theory methods, as used by Charmaz (2008).

3.6 Positivism and constructivism in grounded theory

In the seminal grounded theory the researcher is described as a neutral observer, open and unaffected by theoretical preconceptions. The researcher is discovering data and emerging theories as if theories are present ‘out there’ waiting to be identified. This objectivist position is easily misinterpreted as rejection of existing theory, a position resembling naïve empiricism according to Kelle (2005). Pre-framing grounded theory in a particular theoretical perspective precludes other perspectives and pre-determines data collection and analysis (Glaser & Strauss 1967, Glaser 1978, 1992, 1998, 2001, 2005). This does *not* mean that the researcher ‘approaches reality as a *tabula rasa*,’ but that collection of data is not based on theories generated by logical deduction from *a priori* assumptions (Glaser & Strauss 1967:3, n3, 6). ‘He (the researcher) must have a perspective that will help him see relevant data and abstract significant categories from his scrutiny of data’ (ibid: n3). Generation of sociological theory demands a sociologist with scientific skills, as well as scientific bent, theoretical insight into the relevant area of research, being a good observer and with the ability to use these insights (Glaser & Strauss 1967: 7, 46).

In later debates about grounded theory and constructivism, questions related to the researcher’s role in constructing data are not focused on in Glaserian grounded theory. According to Glaser (1992, 1998, 2002, 2004 and 2005) grounded theory is a value-free method, based on general methods and independent of the researcher’s perspectives. The methodology is ‘in essence epistemologically and ontologically neutral’ and in classic grounded theory researcher positioning is therefore considered to be unnecessary (Holton 2010: 268). Insisting on neutrality and avoidance of reflexivity in the researcher role and epistemological foundations is a positivist element in the methodology. Glaser’s argument against being confined to one theoretical lens is also a defence against associating grounded theory and symbolic interactionism. Classic grounded theory should not be regarded as symbolic interactionism as this is not consistent with rigorous methods and procedures, which is a hallmark of grounded theory methods according to Glaser. The strong defence of methodological rigour and a neutral researcher position is an adaption of an inductive methodological approach to the positivist research tradition.

Does the positivist element in grounded theory have analytical consequences? Or is positivism particularly stressed by contemporary leading theorists on constructivist and postmodernist grounded theory, in particular Charmaz and Clarke? The positivist assumption about research as objective and neutral is incompatible with a constructionist perspective. I will assert that objectivity is not possible; perceptions are selective. Data are not neutral entities waiting to be discovered 'out there'. They are social constructions made by the researcher interacting with the field, being selective, interpretive and constructive. Even if grounded theory is considered as a general methodology, the researcher's position and theoretical lenses require reflection. A general methodology demands epistemological grounding as the main implicit foundations of the methodology have to be made explicit to inform the reader. Epistemological position is of importance for developing concepts, for framing the questions asked and the theoretical discoveries made and thus I will conclude that the researcher's perspectives are decisive in the social construction of data and knowledge.

Glaser & Strauss opposed elements restraining intellectual freedom and creativity, and the hegemony of 'intellectual capitalists', such as Weber, Durkheim, Simmel, Cooley and Mead (Glaser & Strauss 1967:10). Theoretical pre-conceptualisation and verification of theory restrict the researcher's focus and force conceptual development in specific theoretical directions. Existing theories force preconceptions on the empirical data, it can make it hard for the researcher to stay open in the process of discovering and cause bias towards particular perspectives on the interpretation and categorisation of data (Glaser & Strauss 1967, Glaser 1998, 2005). Results from pre-research literature are inimical to generating grounded theory (Glaser 1998:67). They contaminate the researchers mind; prevent the researcher from discovering the main concern of the participants in the field and block conceptual grounding. This lets real; on-going processes remain undiscovered (Glaser & Strauss 1967, Glaser 1978, Glaser 1998, Glaser 2005). The risks of 're-inventing the wheel' and 'discovering' findings well documented by others are avoided by treating the literature as a source of data to be integrated in the analysis when the core category and basic conceptual development is well under way (Glaser & Holton 2004:3.4). Systematising, on the other hand, should encourage creativity not curb it (Glaser & Strauss 1967:8) and allows the researcher to avoid being overwhelmed by data (Glaser 1978).

Grounding in data, generating, and discovery are analytical processes dependent on the researcher's theoretical sensitivity and general academic skills according to Glaser and Strauss (1967). Applying reconceptualised logic theories distances the researcher from the field and hampers '*work and fit*' of the theory. Work and fit is one of the properties that validate a grounded theory (Glaser & Strauss 1967, 1978). Glaser & Strauss encourage open-minded discussions about methods and aim 'to stimulate other theorists to codify and publish their *own* methods for generating theory' (1967:8-9). From this perspective grounded theory allows the constructivist focus on researcher position and social construction.

Grounded theory proposes an alternative to verification and logo-deductive theorising but the alternative is to some extent based on a positivist frame of reference. The implicit foundations of the theory contribute to the maintenance of the prevailing scientific paradigm. On the other hand, the method enables the researcher to become free from theoretical constraints. This together with open-mindedness to empirical processes allows flexibility in the research process, and the reliance on the researcher's skills makes grounded theory adaptable for postmodern and constructivist approaches. The classic elements of grounded theory are incorporated in constructivist grounded theory in addition to the reflexive researcher role and focus on construction of theories and data as dynamic social processes. Flexibility and construction of meaning is emphasised instead of methodological rigour. The result is an interpretive, flexible and dynamic grounded theory as an updated alternative to the classic and more positivist version.

3.7 Conclusion: grounded theory and development of cumulative knowledge

In summary, two different sociological traditions, Columbia University positivism and Chicago school pragmatism and field research are mixed in grounded theory (Glaser 1998:32). The quantitative and positivistic heritage from Glaser combined with interactionism and constructivism from Strauss lead to a combination of theoretical freedom and rigorous methods that makes it possible to 'stretch' grounded theory in different epistemological directions. This elasticity opens the method to further development in positivist or constructivist direction, and makes it difficult to label grounded theory as either positivist or anti-positivist, as naïve empiricism (Kelle 2005, 2010) or constructivist (Charmaz 2008).

On the one hand, the inherent ambiguity in the methodology and the insistence on grounded theory as a general method (Glaser 2009, 2005, 1998, Holton 2010) can enable an adaptability that allows the integration between grounded theory and other theories. In this perspective grounded theory could fit with different communities of knowledge. On the other hand, integration between grounded theories and traditional theory – either speculative theory as Glaser refers to (Glaser & Strauss 1967:261, Glaser 2007) or constructivism and qualitative data analyses – is contested by the classics (Glaser 1992, 1998, 2001, 2002, 2004, 2005, Holton 2010, 2010a). The classic theorists fear that ambiguity will make the method vulnerable to misinterpretation and transformation; risking inappropriate reinforcing or omitting of elements in the method based on what a researcher wants to advance or position against. Last but not least, the conceptual ambiguity combined with a lack of epistemological reflection in classic grounded theory, can reduce the diffusion of grounded theory-based knowledge outside this epistemic community. Constructivist grounded theory is based on a methodological platform that aims at construction of new knowledge rather than defending rigorous procedures. Constructivist grounded theory has a stronger potential to address theoretical development beyond a grounded theory community than the classic, Glaserian version.

Grounded theory allows for various methodological foundations. The next chapter is a positioning of the thesis in the sociological landscape. The positioning is done through a discussion of the methodological foundations of the composite concept of trust and how this influences the development of the core concept *mutual understanding*.

4. SOCIOLOGICAL INSPIRATION: A LOOK INTO THE BLACK BOX

*'Grounded theory is NOT a methodology guided by one theoretical perspective and its theoretical codes. It is a general method ...'*¹⁷

– BARNEY GLASER

Does the quotation above suggest or reject that a grounded theory can be guided by more than one theoretical perspective? Glaser & Strauss (1967:249) point out that developing an applicable grounded theory demands a skilled sociologist. Being a skilled sociologist requires the acquisition of a sound and secure methodological platform, which influences the selection of problems to be addressed, and the methods, cases, analyses and findings. In constructivist social science these elements are the subject of reflection, but not in the classic version of grounded theory as mentioned in the preceding chapter. Researcher positioning is unnecessary as grounded theory is a value-free method in the sense that analytical procedures are neutral and can be used with qualitative as well as quantitative data according to Glaser (1992, 2002, 2005).

However, research methods are not neutral, mechanical tools. Independent of methods, procedures and quantitative or qualitative data; the researcher decides postulations, population and questions. Research is coloured by the researcher's interpretations, theoretical frame, tacit assumptions, and paradigm (Kincherloe & Laren 1998, Kelle 2005, 2010), by background, education, and experiences (Glaser & Strauss 1967). In qualitative social sciences the researcher is a part of the field, often interacting with those being studied (Schwandt 1998:221). Assuming that research is objective means not to question the researcher's position, and thereby relevant clues are left out of the analysis. The diversity of perspectives and research methods demand a reflection on methodological position (Guba & Lincoln 1998, Strauss & Corbin 1998, Haavind et al. 2000, Charmaz 2008).

4.1 Positioning or preconceptions

Methodological positioning in this thesis is an exploration of how a mix of sociological perspectives; symbolic interactionism, constructivism and system theory, frame the

¹⁷ In the text, Glaser uses the abbreviation TC in stead of the full word *theoretical code* (Glaser 2005:3)

construction of meaning, direct analytical focus, and guide decisions about what to include and leave out in collection of data, analysis and conceptualisation. The discussion of basic assumptions and perspectives, which influences the development of the composite concept of trust, is to some extent a retrospective look into the black box of analytical work. The aim is to show how methodological perspectives influence the generation of concepts and the focus in this chapter is *not* on how grounded theory is applied, which will be discussed in the next chapter.

The issue here is to show how empirically based theory generation is inspired and expanded by existing sociological theory. To be inspired by existing theories is different from verification of existing theory. Verification involves testing of theory based hypothesis while inspiration means using existing theory to look at empirical data from new angles and discover new social patterns. The balance between inspiration and expansion, and forcing and preconceptions, was a minor issue in this work on trust as the sociological literature was not related to the particular empirical field and processes under exploration. The literature on trust is now significant and there are empirical studies from a great selection of trust contexts, but there is also a greater risk of acquiring preconceptions.

In addition to positioning the thesis in the general sociological landscape, this chapter will illustrate the methodological flexibility of grounded theory. In this context flexibility means that a work of grounded theory can have roots both in general sociological perspectives *and* contribute to new insights based on empirical data. This flexibility is important as it is the foundation for the theoretical discussion of the composite concept and its contribution to general sociological theory about trust. A grounded theory has its roots in sociology (and other sciences), but the lack of reflection on researcher position makes the roots invisible. The invisible methodological roots create an undeserved image of grounded theory as non-theoretical, and make it difficult to integrate grounded theory works in the cumulative production of knowledge outside the grounded theory community. Methodological reflection makes the platform for theory generation visible and creates opportunities for cumulative contributions of grounded theory based knowledge to the knowledge community outside the grounded theory community.

Reflection is an adequate means of making tacit dynamics visible not only with regard to methodological platforms, but also when it comes to the understanding of trust as a social

process. The theoretical part of the thesis is an exploration and elaboration on conceptual tools for analysing trust processes and making the tacit elements in this process visible.

This chapter presents constructivism and system theory as the methodological platform for the development of the composite concept of trust, and demonstrates how these perspectives have influenced the conceptualisation of trust.

4.2 Constructing trust

Constructivism is about the process of creating meaning and knowledge, ‘an emphasis on the generative, organisational and selective nature of human perception (Spivey 1997: 3). According to Gergen (1999:237), the terms *constructivism* and *constructionism* are often used interchangeably.¹⁸ A brief search in various literatures indicates that the first term is by far the most commonly used, and that the terms are used interchangeably. There are some differences in the two as analytical concepts according to Gergen (ibid); both emphasise human construction of what we take to be “the reality”, but *constructivism* is related to construction of meaning as a psychological process. *Constructionism* takes the outcome of social relationships to be “the reality”. Individual cognition and social relations are different analytical focuses, but a hybrid position is developed, *social constructivism*. Social constructivism combines the two and hold that the individual mentally constructs the world, based on categories supplied by social relationships (Gergen 1999). As the two terms are used interchangeably, social constructionism and social constructivism are read to be about the same phenomenon and the term *constructivism* is used in the thesis and refers to what Gergen refers to as social constructivism.

People are considered to be active and constructive, and the research focus here is on the construction of meaning and how this is manifested. According to Denzin & Lincoln (1998:186) ‘positivist and post positivist paradigms provide the backdrop against which other paradigms and perspectives operate’. A constructivist approach means being in opposition to positivist perspectives, but interpretative sociological approaches can, on their own terms, adapt to positivist, scientific demands (Guba & Lincoln 1998, Strauss & Corbin 1998, 1998a). Classic grounded theory is in some sense adapting to positivism, as pointed out in the previous chapter. The generation of the composite concept of trust is based on classic

¹⁸ In Norwegian, these terms can be translated to *konstruktivisme* and *konstruksjonisme*.

methods and Glaserian grounded theory. The methodological roots of the concept are inspired by the heritage from Strauss, interactionism and constructivism.

Constructivism has roots in philosophy and is interdisciplinary, but to some extent, the research focus varies among disciplines. In psychology, where the individual is the unit of analysis, much constructivist work is about cognitive processes and ordering of knowledge, often labelled cognitive constructivism. Alternatively, what is often labelled as social constructivism uses group processes as the unit of analysis and is conducted in a wide range of fields, for instance in different branches of sociology, in anthropology and in philosophy of science.

According to Spivey (1997), social constructivism can focus on different levels of the process of social construction. These are 1) the social aspects of the individual constructs, 2) the social construction of meaning and knowledge in communities of interacting actors, and 3) the social construction of large discourses, for example at the society level. The perspective of the thesis is that the process of developing and maintaining trust is a social process of construction ranging across the three levels. Trust is constructed in the individual mind, as a social process with a social basis and is a relationship between individuals sharing a common social basis. The individual mind makes the leap of faith; that is moving into trust. The platform or 'input' for this move is social – something people have in common – and is based on the acknowledgement of mutual understanding of the matters at stake. The thesis discusses the social process of constructing trust and the pre-contractual, relational, and structural social bases for this construction.

Constructivism is not a uniform paradigm, nor does it have a specific definition. There are several related approaches and different forms, dependent on which aspects of the construction process that are being scrutinised (Spivey 1997, Gergen 1999, Guba & Lincoln 1998, Schwandt 1998).

As Spivey (1997:3) points out:

Whereas some constructivists favour one focus and other constructivists favour another, the foci that are not taken are not inherently “wrong.” In fact, each can show us something that the others cannot.[...] and thus these different perspectives can be considered complementary as well as oppositional.

In this thesis the constructivist foundation means, in a meta-perspective, that the theory about trust presented here is a theory focusing on dynamic, social and interactive elements of trust. This theory represents one tile in the magnificent ‘mosaic’ called trust. These constructivist foundations contradict classic grounded theory and they are consistent with today’s constructivist version of the method – even though the initial work on trust was done more than twenty years ago.

The ontological basis for constructivism is that reality is dependent on and constructed by our conceptualisation of it (Collin 1998:41, Gergen 1999:69). The actor is an active constructor of the social reality. In the long run, these social constructions appear as ‘objective’ and as taken for granted structures and frameworks for action (Berger & Luckmann 1991). The Chicago School’s influence on grounded theory methods directed the research focus on social interaction and basic social processes (Glaser & Strauss 1967, Glaser 1978). Interpretation and social dynamics are the main elements in interaction, and The Chicago School perspectives influenced how I studied trust processes: the empirical focus was on interaction, relations and the social construction of meaning.

The trust relationship between bank and customer was chosen as the analytical subject in the master thesis, and the research explored the actual interaction between bank and customer. The focus was on the course of interaction, on expectations and fulfilment of expectations, on interpretation and construction of meaning, and on changes in expectations and interaction. This perspective influenced the conceptualisation of trust as a composite and dynamic process of social construction of meaning. Data indicated that the trust relationship between bank and customer was based on a complex mix of socially created and taken for granted social scripts, codes, and norms. This mix is the social basis for interaction, creation of meaning and construction of trust. In this perspective, the actor is not passive and norm-guided. She is an

active constructor of her social world – within social constraints but with a free will to act innovatively or contrary to social constraints.¹⁹

Social constructivism is an epistemological as well as methodological basis of the thesis. The perspective is that scientific knowledge does not provide everlasting truths. Knowledge develops and changes, paradigms are replaced, and hypotheses falsified. In the long run, scientific knowledge comprises provisional suggestions of knowledge in a given time and context, and this thesis is one of many possible suggestions and constructions. This statement does not mean that ‘anything goes’ as knowledge. On the contrary, for a work to be accepted as knowledge in a social constructivist perspective, it has to ‘communicate’ within the scientific context. The work has to satisfy necessary demands from the specific scientific community and answer questions about whether the knowledge fits the aims of being useful and bringing new insights.

Social constructivism inspired the analytical focus and what to look for in the collection of data as well as in the generation of concepts and theory. In addition this process was inspired by Luhmann’s system theory and general sociological theory. The following section therefore focuses on how system theory can function as analytical inspiration for exploration of the social construction of trust on a micro level. Luhmann’s system theory is abstract and is usually applied to the analysis of processes on a macro level. Applying this system theory to the analysis of empirical data and micro level processes is perhaps not so common, but Luhmann’s system theory is a powerful analytical tool and can be applied across the micro – macro divide.

4.3 A trust producing system

Grounded theory recommends postponing literature studies related to the actual subject under exploration until a fundamental process is discovered. This is not anti-scholarship, but practical advice to allow for freedom of discovery, unbiased by preconceptions and goal-oriented literature studies (Glaser 1978:69, 1992:31). In this particular case there was no sociological literature about trust in interaction between bank and customer. Despite trust playing an important, but invisible and tacit role in social coordination, there was little sociological literature on the subject when I started working with it back in the 1980s. Trust

¹⁹ Acting in an innovative way or going beyond social constraints may have its costs, such as lack of trust.

had received little attention in sociology twenty five years ago. Postponing of literature readings related to trust was both methodologically sound and a practical solution to the limitations of literature. The grounded theory method by Glaser & Strauss (1967) was means of turning a disadvantage into a positive strategy. Data collection was therefore based on experience of banking and readings from general sociology, in particular micro sociology and interpretive perspectives. After some studying, I discovered Luhmann's seminal writing on trust, which I found to be a powerful analytical source.

The conceptualisation of trust is theoretically inspired by Luhmann and in particular the trust section in '*Trust and power*' (1979). According to Luhmann's analysis, the function of trust is to reduce problems of risk and complexity. Even though my analysis of trust is based on the premise that the social role of trust is to reduce social risk and complexity at micro and macro level, the composite concept of trust does not involve a purely functional or system theoretical analysis. The system theoretical perspective has to be regarded as both context and inspiration for the conceptual development.

The following is a review of how functionalist and system theoretical inspiration from Luhmann is combined with a social constructivist and interactionist approach in the process of theory generation. Although this combination is perhaps not the most obvious, I refer to Gergen (1999) who asserts that multiple forms of knowledge can coexist, and together contribute to new insights. In the discussion below the emphasis is on system theoretical elements, underpinned by constructivist and interactionist perspectives which influence the application of system theory to help understand social interaction.

Trust is explored as a relational quality – and the focus is on how it is constructed, maintained, and broken. The focus is on social interaction and relationships, interpretation and construction of meaning. Determining the individual thresholds of when the level of mutual understanding is too low to generate trust is an empirical question. Trust is also regarded as contextual quality and, analytically, a particular context for developing trust is a *trust producing system*, as the model presented in the introduction (paragraph 1.5) illustrates. Trust producing systems have particular social codes for development of mutual

understanding.²⁰ To gain insight into how trust is created in social relations, it is necessary to study the social basis for, and the social construction of mutual understanding and common social codes.

4.5 Mutual understanding and common codes

A minimum level of mutual understanding is a necessary condition for developing trust, mutual understanding is the platform for the suspension of doubt and making the leap of faith, which is the transition from a state of doubt into trusting. Mutual understanding is the core process in the composite concept of trust and embraces the dynamic between the social context, social interaction and individual sense-making. Chapter 6 will elaborate further on the concept; this chapter describes how system theory has inspired the generation of the concept of mutual understanding.

Systems as discussed here are not interacting individuals but analytical constructions. Constructions do not exist independently of acting individuals; ‘social systems are those constituted and operating through the communication of meaning’ (Luhmann 1979 xi).²¹ Social systems are communication systems where the participants share codes and interpretations; they are communities of meaning.²² For instance, analytically, the bank-customer relation is a communication system and community of meaning. Actors may be regarded as ‘Systems of a special kind’ – they are in this sense ‘assumed to possess a personality, to constitute an ordered, not arbitrary, centre of a system of action’ (Luhmann 1979:39). Every individual is a system of meaning and communication and represents an abundance of possible actions. The system acts in relation to its environment and the analytical constructed system of communication has a practical, definable, and acting part – the actor. Action involves the construction of meaning and makes sense when it is interpreted in the context in which it is performed. The meaning system, like all systems, is self-

²⁰ The term *code* as it is used in this chapter is based on Luhmann, and must not be confused with *code* used in grounded theory; the terms are applied differently. In system theory is a code a self-referential entity that constructs the system by defining system borders (Luhmann 1979). In grounded theory the codes conceptualise the underlying pattern (Glaser 1978). In one sense the codes have a similar function in the two theoretical perspectives; they order and include/exclude, but they belong to different contexts of knowledge.

²¹ Some critics accuse Luhmann for using a too concrete system concept (Schmidt in Hagen 1992). This may be so, but it is not the focus here, the aim is to show how system theory is used as a meta-theoretical perspective and how this perspective can be applied to analyse qualitative data and micro level processes.

²² It goes without saying that social systems exist in the real world as well, such as communities, organisations, or individuals, but these are not the concern here.

referential. Systems define themselves in relation to their environment and interpret the environment through their code (Luhmann 1979).

If Luhmann's system theory is applied as an abstract 'map' for analysing micro level processes, an actor can analytically be regarded as a system, and so can the relationship that this actor has with the other. A system has its own codes; that is the sense-making context of experiences, knowledge and expectations that filter how an actor perceives a situation. This means that a human being, regarded as a system of meaning and communication, uses her personal codes to interpret the world and transforms incidents and messages into her universe of meaning and experience. This subjective universe is the individual knowledge and experience which is used to interpret and decode meaning. In the trust relation between bank and customer, for instance, the bank clerk as well as the customer will have their inner versions of the social codes in the particular setting. Through interaction, a sufficient level of mutual understanding of the codes is acknowledged. An actor comprehends and acts by assessing phenomena in relation to each other, and then linking these to her own categories and systems of meaning.²³

Each actor is unlikely to interpret an occurrence precisely in the same manner. Simultaneously, the interpretation is related to a larger community of meaning where the members share some context and general interpretations of codes, values, and expectations. They participate in a common culture and are thereby parts of a large meaning and communication system. The actors, analytically regarded as communication systems, are parts of larger systems, which comprise the context or social field in which they interact. Both the subjective and the social are present in interactions, each actor using her subjective personal codes for interpretation of the social situation and inserting her own content into the interpretation and construction of meaning.

Interaction and communication are about using common codes, sharing systems of meaning, and developing mutual understanding. The single communication system – each actor in an interaction – takes part in larger systems through the use of common codes for system definitions, and the simultaneous transformation of these codes to individual, internal codes. Social interaction is about handling the point of intersection between mutual and individual

²³ Confer J. Piaget's concepts of accommodation, assimilation, and equilibrium as descriptions of how human beings adapt to the world (Evenshaug og Hallen 1979, Frøyland-Nilsen 1969, Furth 1985).

interpretation of various aspects of a social situation. If there is no mutual understanding, it will be hard to develop trust. Mutual understanding can be taken for granted in familiar situations, it emerges through socialisation and participation in social contexts, but has to be constructed in new situations and maintained through communication, interaction, and confirmations.

System theory may serve as an analytical perspective that highlights complexity and coherence among several elements in the trust process. The system approach allows a holistic understanding of a complex social phenomenon such as trust.

I hold that the process of creating trust can be analysed through a combination of social constructivism and system theoretical perspective according to the following premises: Social actors, analytically regarded as systems, are part of two systems and refer to two sets of codes: *the subjective and the social*. Mutual understanding in social interaction is about assuming and acknowledging through action that social codes are shared. Trust is created or maintained as an acknowledgement of this.

Analytically, a family, a relationship, a group, an organisation, a municipality, a community or a social context can be regarded as a system with its particular codes and structures. These systems are social systems with common internal codes, codes which are the bases for trust processes within the particular system. Participating in, and becoming a trusted member of the system, presupposes the acquisition of system codes. Socialisation and relational processes are strategies for the acquisition of codes, processes that will be further discussed as the social bases for pre-contractual, relational and structural forms of trust.

4.5 An empirical example: the 'economic man' as system code

In a simplified perspective, a system is defined by its codes and participation demands use of the system codes. For instance, analytically a market can be regarded as a system with money as the communicating code. This means that products, labour, and even care need to be given a price; that is to be converted to money, to be communicated through this system. The inverse is also the case. Items that are given a price constitute a part of a market system. Trust operates according to similar system rules. Analytically, a particular social relationship can be regarded as a system of trust. The communication code in this system is mutual

understanding, which contains the dynamic between the social context, social interaction and individual sense-making and is the ‘trigger’ for trust. To be a part of the *trust system*, one has to follow this code, which means to develop mutual understanding based on a common social basis.

An empirical example of how a system theoretical perspective inspired the process of generating the concept of mutual understanding is to regard the bank – customer relationship as a trust system. This system is an analytical construction and a way of thinking about trust relations. The prevailing rationality, that is the tacit norms guiding the relationship, is a common system code and basis for mutual understanding. Today’s savings banks act as economic, rational market actors; as an ‘economic man’. The banks presuppose the same rationality from the customer. The ‘economic man’ is a code that presupposes economic optimisation as the guiding norm. One basis for the trust relationship between bank and customer is mutual understanding and acceptance of this norm as premise for interaction. It is expected that the bank optimises profit through competitive pricing and that the customer optimizes economic gain through comparing prices and selecting the best price.

The ‘economic man’ code has not always been prevalent. In the post-war period Norway had credit rationing and a strong regulation of the banks, which ended with deregulation in 1984. During the period of strong regulations there was little competition for customers among savings banks, their services were free of charge and interest on credit was politically determined. The main duty of the savings banks was to protect the customers’ savings and manage credit rationing. Responsibility and carefulness were prevailing common codes, not the ‘economic man’ norm (Nordnes 1993). The trust system in the pre-deregulation phase was based on different social codes than today’s banking. Deregulation was a major change in the legal framework for banking, and resulted in a deregulation of the social relationship between bank and customer as savings banks introduced new codes such as economic rationality as the governing norm for the trust system. The introduction of new social codes was a unilateral change of social codes and guiding norms for the trust relationship with the customers. Gradually customers became aware of the changes in the common basis for mutual understanding and the trust system. An effect of this was a decline in the customers’ trust in banks. In 1985 about 76 percent of the Norwegian population reported a high level of trust in banks. In 1991, when the Norwegian banking crisis was at its peak, the reported level of trust had sunk to 29 percent. In 2005 the level of trust was restored to 76 percent, and economic

rationality is now taken for granted as the common basis for mutual understanding (the table is presented in chapter 13.1).²⁴

New codes result in a change in the tacit basis for mutual understanding, in this case between bank and customer. If the change in the trust system is one-sided, as was the situation following banking deregulation, trust breaks down because the tacit contract is infringed. The social codes are different and the development of mutual understanding is difficult. The trust system has to be restored through development of common codes. In the bank – customer trust system, data relating to levels of trust indicate that the restoration process took fifteen years. Restoration times for trust systems can hardly be determined analytically, but conditions for this process can be explored as elements in trust processes. This thesis examines restoration of trust as a question of trust configuration in chapter eleven.

Using system theory as an analytical inspiration is one way to throw light on trust in social interaction. By regarding the actor as a system, it is possible to understand that construction of meaning and communication is made up of both subjective and collective elements. Actors develop mutual understanding through interaction, learning, socialisation, and institutionalisation, and these processes contribute to the development of a common culture and common social codes. Actors acquire values, expectations, rights, and duties in various social contexts – these are the social codes that are vital as social definitions of a specific situation or context. Gradually, some codes become taken for granted as they are assimilated and become a part of the subject. Actors internalise various common codes, generating a “this is the way we do things here” thinking in different situations – which is what I call the pre-contractual basis for trust.

To build, maintain, and bestow trust depends upon sufficient mastering of social codes. Social incompetence as well as deceit undermines trust. The thresholds where trust disappears or turns into distrust vary empirically and are dependent on the social setting and personal elements. Thresholds for trust are not fixed absolutely, they are negotiable and susceptible to influence.

²⁴ The figures are from MMI (from 2006 called MMI-Univero). MMI is former Norwegian survey company that makes regular, national surveys of the level of trust in various organisations and institutions. These surveys are not a public service and there is limited access to the results for non-customers.

To summarise; Luhmann's system theory works as an analytical inspiration for the process of theory generation, and is not, as Glaser & Strauss would have it, a preconception hampering the empirical explorations. In the spirit of grounded theory; Luhmann's work was discovered as a response to a search for general knowledge about trust, and has thus informed the research process and provided essential guidance to my sociological understanding. Luhmann's perspectives stimulated the analytical process and generation of theory, and in retrospect considered, the development of concepts and thinking is inspired from a combination of Luhmann (1979) and Zucker (1986).

4.6 Conclusion: towards a cumulative development of knowledge

In addition to undertaking researcher positioning and situating grounded theory work in the general sociological landscape, one of the ambitions of this chapter was to show that positioning and situating do not necessarily entail acquiring preconceptions. Positioning and situating are about making explicit the main implicit theoretical grounding of a grounded theory work. Research is not done from a *tabula rasa* position; rather it is based on long-established scientific skills and systematic method. This is also the case for research using grounded theory (Glaser & Strauss 1967). By not being explicit about the positioning and situating of knowledge, grounded theory research skips over a process that has become one of the traditional scientific hallmarks. This omits the stage of building a platform for cumulative development of knowledge within the scientific community.

Trust is fundamental to social life and is therefore closely intertwined with social interaction, and social systems are the glue that makes society possible. Social life in its various forms is the sociological research focus. A study of trust processes therefore sits at the core of sociology and should contribute to the cumulative development of knowledge in this field, independently of research methods. Opening up the analytical black box of the grounded theory study of trust as a social system and dynamic process of social construction, situates the study in a sociological context. By situating the study in this way, it legitimises the contribution of grounded theory to the cumulative development of sociological theory about trust.

Finally, the primary aim in this thesis is not to develop **a** Theory or **the** Theory about trust, but to explore and develop analytical tools that stimulate further questions and relevant

hypotheses on trust formation. From a constructivist point of view, theories and knowledge are not firm and everlasting, they are provisional social constructions situated in time and scientific discourses. The perspectives in this thesis and the methods used to generate knowledge are rooted in classic sociology, system theory and constructivism with influence from symbolic interactionism. The integration of the grounded theory perspective on trust – that is the composite concept of trust – with classic sociology related to trust forms, is the topic of the theoretical part of the thesis and is therefore not discussed further in the methodological chapters.

This chapter highlighted sociological theory as the methodological roots and analytical inspiration in the generation of a grounded theory of trust. The next and final methodological chapter will discuss the application of grounded theory method as a strategy for analysing data, and will particularly look at how the method is applied to generate the composite concept of trust and its qualities as a substantive and a formal concept. This application of grounded theory concludes with a discussion of strategies to integrate grounded theory concepts with sociology without ‘being taken over’ or directed by preconceptions, which is Glaser’s fear when it comes to relating grounded theory concepts to conventional theory (Glaser 2001, 2004a).²⁵

²⁵ The term *conventional theory* (Mjøset 2000) does not suggest that grounded theory is unconventional, but that it differs from the conventional idea of theory as law like and logic deductive.

5. FROM SUBSTANTIVE TO SOCIOLOGICALLY GROUNDED THEORY

*'The theory is an integrated set of hypotheses, not findings.'*²⁶

– BARNEY GLASER

The relationship between grounded theory and sociology is relatively unexplored in grounded theory literature. This is despite the method having its roots in sociology, the stated aim 'to be useful in theoretical advance in sociology' (Glaser & Strauss 1967:3), and that 'The theory can be developed *only*²⁷ by professionally trained sociologists' (1967:249). Integrating a grounded theory into the existing literature is the final stage of a scholarly work (Glaser 1978: 126), and, as pointed out previously, the existing literature should not be used as a 'key' for the grounded theory (ibid: 137-139). The theory should be woven into pertinent theoretical and substantive literature, preferably through footnotes and 'as supplements and contrasts, if at all' (Glaser 1978: 131). The last part of the quotation indicates an ambiguous relationship between classic grounded theory and other theories.

Outside the grounded theory community, integration between grounded theory and existing theory is rarely discussed. One exception is Goldkuhl & Cronholm (2010, 2003) who introduce the concept *multi-grounded theory* (MGT). MGT is based on three forms of grounding; *empirical*, *theoretical* and *internal*. Empirical grounding refers to the traditional grounding as described in grounded theory methodology. Internal grounding refers to validation of the concepts and theory; a checking of work and fit. Theoretical grounding means here to confront and compare the evolving theory with other existing theories. Classical grounded theory advises strongly against this way of using existing theory as basis for comparison as suggested in MGT, and this perspective will therefore not be further discussed here. The recommendation of using existing theory as basis for comparison is perhaps one reason to why MGT does not appear to have been widely disseminated, the perspective is for instance not included in the *Handbook of grounded theory* (Bryant & Charmaz 2010).

²⁶ Glaser 1978:134

²⁷ My italic

Even though a modicum of integration is recommended to show the contribution of grounded theory to existing theory (Glaser 1992), grounded theory discussions first and foremost focus on the potential risk of preconception and inhibited creativity in the generation process that existing theory represents. Discussion of relevant literature studies in the generation process may direct attention away from abstraction and generalisation, from the cumulative development of knowledge and from development of formal grounded theory.

As stated in the introduction, one of the aims of the thesis is to discuss and integrate the composite concept of trust into the sociological theory of trust. Conceptual integration involves an exploration of the composite concept as a formal grounded concept and the contribution of a grounded theory concept to sociology. This is also a sociological grounding of the concept. The concept is generated from empirical data and is a combination of the core concept, *mutual understanding* and the sociological terms *relational*, *structural* and *pre-contractual*. The combination has two implications: the concept has the abstract character of a formal grounded concept, and an inherent relation to sociology. The process of concept generation will be further discussed throughout this chapter.

This chapter is structured with empirical sections alternating with theoretical elaborations. The theoretical sections present the main characteristics of the grounded theory method to establish a platform for assessment of examples. These examples are taken from the process of generation of the composite concept of trust and methodological challenges in this work. The discussion demonstrates one possible approach to the integration of grounded theory and sociology and how sociology can be applied as an inspiration for generating grounded theory.

5.1 Substantive grounded theory – main procedural steps

In grounded theory, *theory* is a set of statements grounded in empirical data; it is not a set of logically interrelated propositions to be verified. A grounded theory conceptualises a latent pattern and is a well-developed framework for the explanation of processes and relationships. It has conceptual specifications, not definitions; a grounded theory is a work in progress (Glaser & Strauss 1967). Theory is generated through systematic comparative analysis and the grounding of theoretical statements in empirical data (Glaser 1978:115).

The major difference between qualitative research methods in general and grounded theory is the generation of concepts and theory without prior hypothesis and literature studies of the substantive area under inquiry. Theory generation is creative analytical work based on knowledge of the substantive field of inquiry, on general analytical skills, also called *theoretical sensitivity* (Glaser 1978:45) and on *insight* based on experience and theory as a root source of theorising and reading of literature outside the substantial area for inquiry (Glaser & Strauss 1967, Glaser 1978, 1998). As previously mentioned, reading the literature from the substantive field under study can block the processes of discovery and theory generation inquiry and hinder the emergence of creative conceptualisations from the data (Glaser & Strauss 1967, Glaser 1978, 1998).

Collection, initial coding, and categorisation of data and writing memos are essential procedural steps in theory generation (Glaser & Strauss 1967, Glaser 1978, 1998, Strauss and Corbin 1998, 1998a, Charmaz 2008, Birks & Mills 2011). The procedures form a distinctive grounded theory methodology; a way of studying social reality and ordering relations between researcher and data (Glaser & Strauss 1967, Glaser 1978, 2002, 2004, 2007, Glaser & Holton 2004, Charmaz 2003, 2008, Strauss and Corbin 1998). Testing and verification are the basis of legitimacy in hypothetic-deductive methods. Legitimacy of grounded theory method is rooted in the procedures and steps in the method; they are the scientific hallmark of doing grounded theory. The aim is not verification of existing theory, but the generation of theory that *works* and *fits*. The term ‘work and fit’ means that the theory can explain, predict, and interpret what happens in an area of inquiry and that the categories fit the data – the categories are applicable to and indicated by data (Glaser 1978:4, Glaser & Strauss 1967:3). If the procedures for collection and analysis of data are neglected, the results are likely to be qualitative descriptions rather than analyses and conceptual development (Glaser 1978, 1998, 2001, 2005).

The initial selection of focus and the choice of questions to be researched are based on theoretical sensitivity which influences the collection of data, coding and *theoretical sampling* (Glaser 1978:45). Theoretical sampling is the on-going, joint process of collecting, coding and analysing of data. The initial coding directs further data collection; sampling evolves during the research and is based on concepts developed from data. Sampling ceases when coding is sufficiently saturated, that is when further data collection does not generate new categories (Glaser & Strauss 1967, Glaser 1978, 1998). The aim of theoretical sampling is to

collect and compare data along various dimensions to get an extensive insight in dimensions related to the concept under generation. According to Glaser (1978:37-38) this is ‘to elicit codes from raw data’ and is based on constant comparative analysis of collected data. Theoretical sampling creates fit between data and analysis. Data grounds the analysis and the empirical grounding result in theory that fits; the theory is ‘relevant for the area it purports to explain’ (Glaser & Strauss 1967:261). In hypothetic deductive methods, relevance is a question of validity and reliability, in grounded theory the theory is fitted to the data.

This brief overview suggests that grounded theory is neither easy to conduct or that it is indisputable. On the contrary, the methodological ambiguity that characterises the roots of grounded theory also characterises the method and its procedures. Classic “Glaserians”, constructivists and other qualitative researchers using grounded theory may have divergent opinions about how to conduct the method. These disagreements will not be explored further in the thesis as the aim is not to evaluate procedural practice in general, but to discuss how it is practiced in order to generate the composite concept of trust.²⁸

The joint work of coding, category and concept generation are not easy to sort out and discuss in a structured way. There are no clear distinctions between categories, properties and dimensions (Dey 1999); the terminology can be confusing and is often used differently in the grounded theory literature. A solution to this confusion, according to Birks & Mills (2011:89), is to realize that the terms *concepts*, *codes* and *categories* mean the same and (with reference to Holloway 2007) are about ‘a descriptive or explanatory idea, its meaning embedded in a word, label or symbol’. Theory generation is the process of transforming data from empirical processes, from descriptions to new meaning-laden words that can explain, interpret and predict these processes. The method for doing this is to find properties, to identify and establish relations through comparison and iteration.

The next section of this chapter will focus on coding and category development followed by a section about theory and the generation of formal theory. These discussions are followed by empirical examples. The final section concludes with a discussion of strategies for integration between grounded theory and sociology.

²⁸ Ian Dey (1999) elaborates on the ambiguity of grounded theory and suggests improvements of procedures and method to strengthen it.

5.2 Empirical insight - a basis for theory generation

As mentioned, the composite concept of trust was generated from an explorative in-depth study of the trust relationship between savings banks and customers as a part of my master degree work. At that time, there was no accessible literature about trust in the relationship between bank and customer, but grounded theory provided an appropriate method. Readings of general sociology, organisational studies and literature about corporate social responsibility were conducted in parallel with my studies of the method. The literature did not result in preconceptions about the substantive topic of trust in savings bank relations, but did have some influence on the analytical focus, on social relations, social construction and the social responsibility of banks, and the coding of relations, roles, and bank attitudes.

The initial collection of data was initiated early in the study.²⁹ I was not a novice empirically or as an academic, and had quite an extensive knowledge of the savings bank field, in addition to the education as a college lecturer. My banking knowledge was acquired through experience as a bank clerk, bank training and friends who had worked in banks over many years. In addition my spouse was a bank manager and I also had experience as a private customer and as a business customer (I was a female entrepreneur for some years). My working life began in a small countryside bank so I observed the mergers and the transformations of savings banks from the mid 1970s.

The varied background knowledge of the field turned out to be an invaluable resource. Knowledge about whom to ask, and what to ask about, gave me unique access to a lot of data and the opportunity to compare different perceptions of the same situation. In addition to talking with two and sometimes three actors about the same incident, it was possible to compare documents, implementation processes and opinions. Taken together, this provided a rich and nuanced picture of the internal operations of a savings bank and allowed me to generate thick descriptions that could elucidate the development of categories. The collection of data had both a bottom-up and top-down perspective. Front-line employees interacted with the customers and were directly involved in producing relational trust. Bank managers (top and middle level) made decisions that affected the interaction with and relation to the customers. Management transformed the tacit social contract and pre-contractual basis for trust. Customer data was collected from personal banking customers.

²⁹ See appendix for further description of data in the study (Nordnes 1993).

Grounded theory was a methodological opportunity to explore a rich source of empirical data, to follow interesting cues and listen to the informants' voices. Even though the procedures in grounded theory provide guidelines on how to transform the material into concepts and theory, I experienced the generation process as quite complicated and confusing.

In retrospect, as I was a sociological novice, it would have been difficult to apply grounded theory method without an insight in, familiarity with, and access to the rich data. Empirical knowledge did to some extent compensate for theoretical sensitivity as rich and relevant data is a prerequisite to the generation of concepts and theories. Procedures provide guidelines for collection, selection and analyses of empirical data and generation of theory, but cannot compensate for superficial empirical knowledge of the substantive field. Sampling is critical in grounded theory and involves asking relevant questions, selecting appropriate informants and accessing empirical knowledge. Sampling is dependent on substantive knowledge as well as scholarly skills. Lack of familiarity with the substantive field would, for instance, make it difficult to identify core categories, a basic social process or other elements relevant for theory generation.

In hypothetic deductive research, literature studies and existing theory are the basis for the development of hypotheses. The aim of data collection is the testing and verification of hypothesis and theory. In grounded theory on the other hand, none of this is relevant; substantive knowledge and scholarly skills direct the focus and the collection of data with the aim of theory generation. Implicit in this approach is the tacit premise that grounded theory scholars either only explore familiar substantive fields or that substantive, empirical knowledge is not a necessary prerequisite for a grounded theory study as this knowledge will be generated through the collection of data.

The necessity of empirical background knowledge seems to be rarely discussed in grounded theory method even though empirical grounding is based on substantive knowledge. The fear of 'conceptual contamination' of the explorative process (Glaser & Strauss 1967:37), the inhibition of creativity, and acquisition of preconceptions, result in caution against literature studies within the substantive field. The result may be that theory generation potentially has a weak empirical foundation if the initial substantive knowledge is insufficient for the development of relevant questions, collecting rich data and relevant sampling. One indication

of this weakness is research that results in descriptive studies rather than generation of concepts and theory. 'Worrisome accuracy' and descriptive studies are elements against which Glaser warns in his later works (2001, 2004a, 2007).

5.3 Coding and categories

As pointed out above, generation of grounded theory is an iterative process between collection of data, analysis and writing. This means that coding, conceptualisation and category development are processes that go back and forth and the entities can be continuously developed.

Coding and category development are analytical steps in grounding theory. Coding transforms empirical data to analytical entities; to concepts, categories and their properties. According to Glaser (1978:55) a 'code conceptualises the underlying pattern of a set of empirical indicators within the data'. In quantitative research coding is based on predefined categories, whereas in grounded theory coding emerges throughout the collection and analysis of data. *Substantive codes* conceptualise the empirical substance and *theoretical codes* conceptualise how 'substantive codes may relate to each other as hypotheses to be integrated in the theory' (Glaser 1978:72).

Theoretical codes are auxiliaries in the coding process. They establish connections and function as implicit, integrative theoretical cues, not as preconceptions such as theories in hypothetical deductive methods. Theoretical codes influence conceptualisation and generate analysis instead of empirical descriptions. Glaser suggests a coding family of a minimum of six codes, but this can be extended to eighteen theoretical coding families (Glaser 1978). These codes are theoretical terms imported from sociology, based on traditional sociological perspectives on social action. Examples of coding families and some of their codes are *the strategy family* with strategies, tactics and mechanisms, *the cultural family* with social norms, social values and social beliefs, and *the interactive family* with mutual effects, reciprocity and mutual dependence.

A code does not determine one particular relation. Codes are flexible and several codes can work with the same data. There are four forms of coding. *Open coding* is the initial phase of the coding process. In this phase coding is unbounded and there are no preconceived codes.

Later on in the process *selective coding* can be used to delimit the coding only to those variables that relate to one core variable. *Theoretical coding* is used to provide conceptual connectors in the writing of the theory (Glaser 1978). Finally, the term *constant comparative coding* is used for coding of incidents for categories and their properties and the theoretical codes that connect them (Glaser 1992:38).

A grounded theory has two elements: *conceptual categories* and *properties*, and hypothesis or generalised relations among the categories and their properties (Glaser & Strauss 1967:35). Generation of theory means the selection of significant codes and raising these to a category on an abstract and conceptual level. Categories and properties are not data by themselves; they are not descriptions but concepts indicated by the data. A category is a conceptual element of the theory while a property is a conceptual aspect or element in a category (Glaser & Strauss 1967:36). Thick descriptions elucidate categories (Glaser 1978, 1998) and a core variable or category is the basis for theory generation.³⁰

Coding is the building block of grounded theory generation. Coding procedures and discussion of coding are one of the main subjects in Glaser's later writings. Disagreement about coding caused the schism between Glaser & Strauss twenty years ago (Glaser 1992, Strauss & Corbin 1998). Discovery versus construction of theory; the question of forcing or emergence and qualitative description versus generation of theory, are all contested issues by classic and constructivist grounded theory adherents. These debates can be related to different methodological positions and were discussed in chapter two. The question of preconceptions and forcing of data can also be related to the discovery of a basic social process and use of coding families. These elements will be further discussed in relation to their potential for generating formal grounded theory in the last sections of this chapter.

5.4 Thinking conceptually

A concept in grounded theory is the naming of a social pattern based on research (Glaser 2001:10). The aim of grounded theory is conceptual specification, not conceptual definition. A conceptual definition is a statement of a precise meaning. It defines by including a limited

³⁰ Thick descriptions give context of an experience, state meanings and interpretations and reveal the experience as a process (Denzin 1998b:325, with reference to Geertz 1973). In grounded theory method the term refers to rich background data as basis for generation of categories, which must not be confused with descriptive studies that Glaser warns strongly against.

group of elements, other elements are thereby excluded. In addition, conceptual definitions belong to the verification tradition that Glaser & Strauss contradicted. A conceptual specification, on the other hand, is open in the sense that it specifies a group of elements but does *not* exclude other potential elements. In relation to grounded theory, conceptual definitions have a delimiting function while conceptual specifications are dynamic. A grounded theory concept is not definitive; it can be further specified with new data.

Grounded theory concepts should be sensitising and help to grasp a meaningful picture of what is happening in the empirical field (Glaser & Strauss 1967). *Sensitising* concepts ‘give the user a general sense of reference and guidance in approaching the empirical instance’ in contrast to *definitive* concepts that ‘refer precisely to what is common to a class of objects, by the aid of a clear definition’ (Blumer 1954:7). A criterion of a good grounded theory is that it *works and fits* – the concepts work to explain and predict and the theory fits the data (Glaser & Strauss 1967, 1998). A grounded theory is not a definitive, proven hypothesis; it is integrated and has an empirically grounded hypothesis. Despite the positivist roots of the method, grounded theory has a sensitising character; theory is suggested knowledge, it is a process rather than everlasting truths (Glaser & Strauss 1967). The flexible perspective on the development of knowledge is not an explicitly constructivist position, but an acknowledgment of the empirical basis for development of theory and the changing, process character of social life.

Grounding concepts in data means *thinking conceptually* (Glaser 2004:[p.30]). According to Glaser, thinking conceptually is the characteristic that distinguishes grounded theory from traditional qualitative data analysis, which is a ‘conceptual description method with worrisome accuracy at issue.’ (Glaser 2002: [p.38]). Thinking conceptually is about establishing a relationship between data and theory through comparison of indicators,³¹ properties, and dimensions. Constant comparison highlights similarities and differences, specific qualities and uniformed patterns emerge among the compared entities. This process creates the empirical grounding and specification of a concept. Conceptual specification allows for flexibility and adaption to social change as grounded theory is work in progress. Concepts are dynamic and ever-developing frameworks as new data can extend and specify

³¹ In grounded theory a concept is based on multi-indicators, not only one-indicator (Glaser 1978:65). Indicators are the empirical findings that are interpreted to ‘indicate’ the generated concept. Properties are the conceptual elements of a category and dimensions are variations of a property (Glaser & Strauss 19667, Glaser 1978, 1998).

the concept, giving a better fit between data and analysis. If the empirical basis or meaning of the concept changes – that is the indicators and properties – the concept can be modified and adapted to these changes (Glaser 1978:64).

Coding of data, development of categories and establishing relations between them are iterative analytical processes. The analytical process continues until saturation is achieved, where additional data does not contribute to development of properties of the category (Glaser & Strauss 1967:61, Glaser 1998:141). Or, as in most cases (including the generation of the trust concept) there are practical reasons for stopping, such as time and money. Through the dynamic iteration process, the fit of the theory improves; it works better in explaining the empirical processes (Glaser 1978, 1998). The iterative analytical process is supported by continuous writing of memos about codes, emerging concept and categories. The memos help to clarify thoughts and analysis, and they can constitute a part of the drafts for publication of the grounded theory.

The main challenges that occurred during the theory generation process will be discussed in relation to empirical examples in the next section.

5.5 Coding and theory generation - an empirical example

During the bank crisis in the late 1980s, the Norwegian newspapers wrote frequently about declining trust in banks. People accused banks of high interest rates and of being greedy and risk-seeking. My interest in the trust process aspects of this relationship was triggered, through observation of the apparently changing relationship between savings banks and customers, and it became the focus of my master thesis (Nordnes 1993).

Data collection for the master thesis was based on observations of interactions between bank and customer in different bank branches and interviews with bank managers, bank employees and bank customers. Customer interviews were supplemented with informal talks with bank customers in general (that is almost everyone in my network who was willing to share their experiences as a bank customer).³² The aim was to gain insights into why and how trust declined and to grasp the informants' meanings and interpretations related to trust between

³² The word bank and savings bank are used interchangeably. See appendix for further specification of informants and data collection and Nordnes (1993).

bank and customer. The focus in the interviews was on trust as a social process; how it was broken down, maintained and constructed through social interaction. Access to rich data resulted in memos with thick descriptions, observations, and comments as the basis for coding, for further systematic data collection and categorisation. Analyses of data indicated that infringement of expectations undermined trust. Systematic collection of data was concentrated on the interaction process; the content of customer's expectations of the bank and how the expectations were infringed.

The iterative process of data collection and analysis focused on the following questions: What exactly did the customer expect, what were the foundations for their expectations, what did the bank promise and how were their promises fulfilled? In the following paragraph I will present a few elements from the interview data to show how the concept *mutual understanding* emerged.

Customers told about how the bank had disappointed them and acted in an unforeseen way. Banks were seen to conduct an irresponsible policy, they charged interests and fees at too high a rate, and they appeared to be unpredictable from the customers' point of view. Customers felt that the bank had one-sidedly broken a tacit contract, as one informant said: '*I thought the bank was an institution such as the church and the school, but no*'. Another customer told that '*If it is so that every customer is served differently, but they believe that they are treated equally -then there is a formidable gap between expectations and realities*' (Nordnes 1993:94, 122).³³ The bank clerks told that they sometimes felt embarrassed when they face to face with the customers had to charge for services that formerly were free and that they often found it hard to defend the new bank policy in front of the customers. One bank clerk expressed in this way the dilemma that several clerks described: '*Often I have a bad conscience. One knows what it costs to provide for a family and kids. It is hard. I have feelings, but I have to think about business on behalf of the bank. We are losing money and may lose our workplace*' (Nordnes 1993:151). The clerks talked about loyalty dilemmas and a feeling of being unfamiliar with their workplace and of a lack of information. Structural change and mergers transformed local, independent savings banks into branches of a few large banking groups with ambitions to rapidly turn traditional, local savings banks into

³³All the empirical quotations are my translations of Norwegian statements referred in Nordnes (1993).

modern financial institutions within a few years. As a bank manager said: '*Now we have to think business as they call it*' (Nordnes 1993:147).

As the quotations above indicate, the customers and different groups in the bank experienced different aspects of the bank transformation – but they all felt that previously held expectations had been infringed. There was no *mutual understanding* of how relations should unfold. Mutual understanding gradually emerged as a conceptual code and a core category that conceptualised the underlying pattern – that the common social basis for the trust relation between bank and customer was fundamentally transformed. The bank had terminated the old tacit contract with the customer and unilaterally changed the social basis for the relationship.

5.6 Theoretical codes and sociological sense-making

Coding is the organising of data into categories according to properties and dimensions. Data was coded into several substantive codes and categories relating to situations characterised by infringed expectations. Substantive coding was based on empirical descriptions of customer characteristics, the relationship to the bank, bank actions and bank attitudes and various social bases for expectations. The initial, open coding was manageable. The challenge was the further categorisation and establishing of connections – the application of theoretical codes and generation of theory.

Coding and categorisation are analytical steps in the conceptualisation of on-going social processes and patterns of action. Categories were further sorted into some main, substantive categories such as infringed expectations about bank procedures, role performance of bank clerks and attitudes signalled by the clerk and by the bank organisation. To gain a broader picture of the on-going processes, establish connections and raise the empirical findings above substantive descriptions and categories, I needed theoretical codes. Classic sociological categories were necessary as analytical tools. The core of the categorisation work was a matrix of relations and expectations, categorised on the basis of Parsons Pattern variables; they functioned as theoretical codes.³⁴ The main category of expectations was categorised as diffuse or specific and this was further combined with role theory and categorised as

³⁴ Talcott Parsons describes five pairs of pattern alternatives of value-orientation focusing on the relational aspect in roles (Parsons 1979:66-67). I used three pairs of value orientations; specificity vs diffuseness, universalism vs particularism and self-orientation vs collectivity-orientation.

constitutive and background expectations. This matrix of expectations is inspired by Zucker (1986), and is elaborated on in chapter 9 about relational trust.

At a micro level, in interactions between bank and customer, data indicated that expectations and *mutual understanding* are a prerequisite for developing trust. But what is the foundation for mutual understanding? The master study indicated that there are three main social bases for mutual understanding between bank and customer: 1) implicit expectations regarding bank procedures, attitudes and interaction, 2) experiences and ‘talk’ about the bank, and 3) contracts and security arrangements. The social bases for mutual understanding could be categorised as 1) a taken for granted tacit social ‘contract’, 2) relational experiences and 3) formal structures. General sociological terms were the clue in categorising these findings, they were the theoretical codes. The bases could be categorised as *pre-contractual*, *relational* and *structural* foundations for developing mutual understanding and trust (Nordnes 1993).

Literature studies and sociological analytical tools were required to order and inspire the sense-making of the rich empirical material. Parsons Pattern variables made sense of the various categories of data and at last I was able sort the categories in a comprehensible pattern. In retrospect I will assert that concepts and theory imported from sociology, and which functioned as theoretical codes, were crucial to complete the generation of theory.

As prescribed in the seminal grounded theory work by Glaser & Strauss (1967), the study of the bank-customer relation started out with no deliberate theoretical preconceptions of the substantive field. Thanks to empirical experience and rich knowledge of the savings banks field (and emerging analytical skills), substantial numbers of memos were produced and data was coded into content rich categories. A core category and basic social process was discovered; the construction of *mutual understanding* as a premise for trust. But I was unable to tie the picture together and explain in a systematic way how trust was infringed until the material was categorised in accordance with Parsons Pattern variables. This experience can be interpreted as acknowledgement of the statement that only a skilled sociologist can do grounded theory (Glaser & Strauss 1967). If so, then the method is unsuitable for students, who according to Glaser (2001:213) are the principal current users of grounded theory. This is a pity because grounded theory allows for creativity and a fresh and explorative look on empirical challenges. However, my experience also indicates that one challenge of grounded theory is, as referred to earlier, the somewhat ambiguous relationship to existing theory.

5.7 Literature studies and preconceptions

Reading literature about the substantive field may or may not cause pre-conceptions. According to Corbin and Strauss (1998), Charmaz (2008), Urquhart (2010) a literature review combined with reflexivity towards existing theory is acceptable as an introduction to the research problem in grounded theory, although there is a risk of ‘contamination’ of creativity and exploration. On the other hand, not to read is to be unfamiliar with current thinking in the field and the researcher runs the risk of ‘reinventing the wheel’ and incorrectly classifying one’s own findings as truly original. The ‘no-reading’ dictum distances grounded theory work from existing theory and this is perhaps the most challenging aspect of the approach. Even though broad reading is recommended from the start and category directed, specific reading is recommended in the latter stages when integrating grounded theory into existing theory, these messages are under communicated. The no-reading dictum is an implicit, but integral part of the method. The focus is on coding and categorisation of empirical data independently of existing literature and theory, and the subject of integrating grounded theory with existing theory is not emphasised in the grounded theory literature.

Theoretical coding can at best function as a connection to existing theory, but on the whole there are recommendations in the method that distance grounded theory from existing theory. Distance makes it harder to generate theory and integrate grounded theory and existing theory while openness will have positive effects. A critical step is to move from description to abstraction and generation of theory. Elements and concepts from existing theory can contribute to a strengthening of this process, facilitate categorisation and conceptualisation, and raise the analytical power of a grounded theory. In addition, openness can prevent development of a grounded theory lock-in state, and facilitate integration between grounded theory and existing theory.

A lock-in state is not in line with grounded theory recommendations. Integration of theories and concepts with the literature will strengthen grounded theory contributions and legitimise the method (Glaser 1978, 1998), as well as protecting the researcher’s creativity and freedom, stimulating analytical openness and sensitivity, and preventing a preconceived mind imbued with non-relevant speculations.

Glaser's (1998:67) advice is not to do an initial literature review in the substantive area, but to start the literature search when the theory is nearly complete. Relevant literature is unknown until the researcher gains insights into the main concerns of the participants in the substantive field (ibid: 68). Grounded theories should therefore be woven into relevant literature during writing of the research findings. This premise of grounded theory method can be read as a rejection of existing knowledge. Without initial literature readings it is difficult to establish a basis from the start of a research process to relate grounded theory to existing theory. The recommendations of postponing the literature review do not mean *not* reading at all. On the contrary; 'It is vital to read, but in a substantive field different from the research' to avoid preconceptions and derailing (Glaser 1978:31). The researcher is recommended to read for stimulation of ideas, sensitivity and style (ibid: 32) – this is a general recommendation which is relevant independently of method.

5.8 Towards a formal grounded theory and the trust paradox

Why was the tacit contract between savings banks and customers eroded? Data from bank managers indicated that the explanation was related to macro level processes; the deregulation of saving banks. Deregulation was the engine of the transformation of the trust relation between bank and customer; it was a transformation of the foundations of trust between customer and bank. The change in the legal framework for economic transactions was also a deregulation of the social contract between bank and customer. Deregulation altered the basic social process (BSP) of trust development and was a transformation of a basic social structural process (BSSP) – the formal regulation of banks. Generation of grounded theory on a micro level revealed macro level processes. To understand the underlying dynamics on the micro level, macro level processes had to be integrated in the analysis as a driving force for transformation of the substantive field.

The grounded theory approach resulted in five discoveries: 1) deregulation of the formal structures that embedded the bank-customer relationship transformed the foundations of trust on several levels 2) trust is not a static quality but a dynamic process of social construction 3) existing sociological analytical tools did not grasp the trust dynamics sufficiently 4) grounded theory works to discover macro processes and 5) general sociology enhances the analytical potential of grounded theory.

A product of the master thesis (Nordnes 1993) was the joining of the above mentioned elements into an early stage of a *composite model of trust*; a dynamic analytical framework based on sociological concepts for studying trust as a process of social construction. Quite early in the process of theory generation, it was evident that the substantive categories could be sorted into larger groups and the use of general sociological terms improved the clarity, and work and fit of the theory. This step in the generation process moves the theory from the substantive to the formal level as it makes the theory more abstract and hence generalisable. On the other hand, it raises the question as to whether this process is not an empirical grounding of a formal theory – a distinction that will be further discussed in the final section about formal grounded theory.

Working as social scientist at an applied research institute, it became clear that the dynamic trust perspective has wide relevance as a conceptual framework to study other social processes and contexts in which the production of trust was an important element. The *process perspective on trust*, the core category *mutual understanding* and the discovery of the *pre-contractual, relational and structural social bases* for trust have explanatory power which provides a better understanding of the conditions for cooperation and trust. This approach is one way to make production of trust visible and highlight hidden processes and dynamics which otherwise would remain undiscovered, for instance *the trust paradox* and social configurations of trust.

The trust paradox emerges in situations of social change and is a combination of two characteristics of trust: 1) trust as a strategy for coping with risk, uncertainty and the unfamiliar and 2) trust as a leap of faith based on mutual understanding. Social change involves risk and increases the demand for trust. Social change is a transformation of the social bases for trust; it alters the composition of trust bases – the social configuration – and platform for mutual understanding. Change in social configuration may disrupt mutual understanding and cause diminishing trust. This is the trust paradox; in situations where there is an increased need for trust, the social foundations for developing it are diminishing. Exploration of the social configuration of trust means exploring how the dynamics between the three social bases unfold in situations of social change.

The methodological point related to the trust paradox is that the paradox is made visible through the generation of the composite concept of trust. This particular conceptualisation

highlights mutual understanding and social bases as *core concepts* to understand the trust process. The core concepts are inextricably connected elements of the composite concept. This dynamic framework enables us to ask key research questions that identify relevant processes in the empirical field, and which lead to elaboration of the conceptual framework in a way that makes it applicable more generally – as a formal grounded theory.

Every substantive case of grounded theory may have its particularities, but at the same time there are general social processes in play. Examples of this are the development of trust, awareness contexts or the development of new social identities, such as becoming a professional or becoming a non-addicted. Sociological theory is a relevant tool to analyse social processes and forces, and the intersection between substantive processes and general social forces is one door between grounded theory and sociology.

5.9 Generation of formal grounded theory – a door into sociology

While there are many good substantive grounded theories, there are few works about developing formal grounded theory (Glaser 2010:99, Kearney 2010). Formal grounded theory has ‘received scant attention’ and ‘is virtually ignored’ because it ‘does not fit the typical qualitative data analysis’ according to Glaser (2007:2); qualitative data analysis is descriptive and does not aim for generation of theory (Glaser 2001, 2002, 2004, 2007).

Glaser refers to several reasons for ignoring generation of formal grounded theory: researcher specialisation, the gap between substantive and abstract knowledge, lack of academic support, discipline lock-in, the fear of depersonalisation of a substantive theory, and lack of skills in applying formal grounded theory. Moreover, most attempts to develop formal grounded theory fail because of misconceptions of the concept and procedures (Glaser 2007). The post-modern rejection of grand narratives and focus on the partial character of knowledge (Lyotard 1997) leads attention toward substantive theory rather than formal theory (Kearney 2010). Generating formal grounded theory is an ‘arduous task’ according to Stern (2009:62), and novices are advised against doing formal grounded theory (Glaser 2007:83). All these elements might be good reasons for a deficiency of formal grounded theory, but further discussion of them is not the focus here.

Here the attention is on the elements inherent in the method, elements that may inhibit development of formal grounded theory. One risk is that generalisation and generation of formal grounded theory can be ignored because of the strong focus on generation of substantive theory and on empirical work and fit of theory. Procedural rigour and warnings against reading relevant literature until work is finalised can also turn attention away from abstraction and generalisation.

On the other hand, analysis of basic social processes has an inherent potential for enhancing development of formal grounded theory. This potential is somewhat underdeveloped and could have been more strongly elaborated in the grounded theory literature; it is scarcely discussed as relevant for generation of formal grounded theory. Basic social processes are general features of social life and as such they constitute a potential for abstraction. In addition, when substantive grounded theory is advanced to formal grounded theory, this enhances the theory's potential for integration with middle range sociological theory. The theories 'communicate' better if they are at the same conceptual level.

Formal grounded theory

Empirical grounding instead of logical deduction is the fundamental distinction between grounded theory and conventional theory. A formal grounded theory is rather abstract; the theory is removed from the raw data upon which it is based and the theory has broad applicability. It is developed for a conceptual area of sociological inquiry and differs from substantive grounded theory in the level of abstraction and generality (Glaser & Strauss 1967:32-33, Glaser 2007:5). There is not a sharp division between the two forms of theory, the point where a substantive theory moves into a formal will be a question of interpretation and cannot be decided once and for all. As there is no dichotomous distinction between the two forms of theory, the difference between them is a question of degrees of generality (Dey 1999:41).

According to Glaser (2007:4) a formal grounded theory is 'a theory of a SGT's general implications generated from, as widely as possible, other data and studies in the same substantive area and in other substantive areas'.³⁵ The study of trust discussed in this thesis is an example. The initial theory was developed for a substantive area, the relationship between

³⁵ SGT – substantive grounded theory

saving banks and their personal customers (not businesses customers). Data indicated that the mutual understanding between bank and customer was a foundation for the leap of faith and trusting. Mutual understanding is based on a combination of three social bases: interaction, tacit social agreements and formal contracts. These social bases could be categorised by general sociological terms, as relational, pre-contractual and structural. Gradually it became clear that the process discovered in the substantive case, was a general process. The applicability of the theory to the analyses of various trust situations resulted in a formal grounded theory about trust as a compound and dynamic social process.³⁶

Formal grounded theory is an extension of a substantive grounded theory and is generated through the same procedures as substantive theory, in particular, constant comparison and theoretical sampling. There is an exception in the relationship to conventional theory. Grounding of formal grounded theory can be done using literature as sources of data, and Glaser (2007: 91) recommends a literature review for conceptual comparisons and theoretical sampling. It is recommended that a formal grounded theory departs from a substantive theory as categories and concepts develop, so that there is no risk for 'contamination' of originality. In this strategy there is a risk of being descriptive or rewriting of the substantive theory.

Rewriting is a possible, but not recommended strategy for developing formal grounded theory (Glaser & Strauss 1967, Glaser 2007). It involves a linguistic transformation of the theory and writing it in a more general manner. The result is neither an empirical grounded formal theory nor a theory built on logic deduction. Formal grounded theory can be generated directly from data, but this can easily become just an 'ordering of a mass of data under a logically worked-out set of categories' (Glaser & Strauss 1967:92). The strength of a grounded theory, whether it is at the substantive or formal level, is that it is generated from data and that there is empirical work and fit. A formal theory generated directly from data may not have this as it is likely that the process of abstraction into constructed concepts has involved forcing of data.

One aim of generating formal grounded theory is to expand the use of the theory. This means applying it to study a particular phenomenon in new contexts and through this expanding existing theoretical and empirical knowledge. An additional aim is to develop an analytic tool

³⁶ The general applicability was discovered through various projects as a social scientist at an applied research institute. The theory was rarely applied at the design of the project, but throughout the work, trust processes emerged as one of the explanatory elements (see note 140, chapter 14.2).

applicable to consultants and lay people (Glaser 2007). Empirical applicability demands empirical work and fit of the theory. But can the existing formal grounded theories be applied to further studies? Is empirical work and fit the difference between these preconceptions and preconceptions from conventional theory? Does applying formal grounded theory not force data as the conceptualisations are used to compare and not to verify? Can empirical fit and relevance also be applied on theoretical fit and relevance? Are these criteria relevant when expanding grounded theory concepts into general theory? The theoretical integration between the composite concept of trust and sociology is one form of elaboration on these questions.

5.10 Basic social processes and macro analyses in grounded theory

A basic social process can be a core category (Glaser 1978:96) and it ‘explains a considerable portion of the action in an area and relates to most categories of lesser weight used in or making the theory work’ (Glaser 1978:5). Basic social processes have general implications and this give them the character of formal theory. Mutual understanding, for instance, is a basic social process discovered on a substantive level, but has scope as a formal theory. It is a process that is abstracted from time and space and fits well into the hallmarks of a basic social process (BSP): ‘BSP’s are *pervasive* since they are fundamental, patterned processes in the organisation of social behaviours which occur over time and go on irrespective of the conditional variation of place’ (Glaser 1978:100).

Basic social processes are fundamental processes that can be found anywhere and are independent of time and place, but ‘can account *for change over time...*’ (Glaser 1978:101). Processes unfold as sequences of action or events over time. Transformation and the emerging of new conditions are indications of change in a basic social process. Development of trust for instance, is a basic social process unfolding as a sequence of interactions that can be analysed in short and long term perspective. The establishment of mutual understanding is a core process based on social foundations. Transformations in the foundation do not necessarily alter trust as a basic social process, but its substantive basis.

The general character of a basic social process directs the attention toward generalisation and possibilities for development of formal theory, but this analytical opportunity is hardly mentioned in Glaser’s (1978) discussion of the concept. A basic social process is a

substantive process *and* an abstraction. It has the character of a general social process which can be at various levels of analytical abstraction; as substantive theory, general substantive theory and formal theory (ibid: 107). The analytical potential of a basic social process for the generation of formal grounded theory appears to be underdeveloped in the literature about how to practice grounded theory method.

There are two types of basic social processes; *basic social psychological processes* (abbreviated BSPP) and *basic social structural processes* (abbreviated BSSP). According to Glaser (1978:102) a basic social process mainly refers to the BSPP type of process; action and social psychological processes. If a basic social process refers to a BSSP this should be made explicit. One of the arguments against grounded theory is that it lacks the potential for generating analyses of macro level processes and is a method only for analyses of action and micro level processes. I hold that the basic social structural process is an analytical approach to study macro level processes such as structural transformation by using grounded theory method.

For instance, the composite concept of trust is as a basic social process grounded in actions at a micro level, but the analysis of trust configuration (chapter 12, 13) also focuses on macro level social change and transformation of social structures. The composite concept is generated from a study of how one BSSP, deregulation of banks, transformed another basic social process; trust between customer and bank. Micro level analysis generated knowledge of the dynamic between micro and macro level processes and the theoretical discussion about integration between grounded theory and sociology goes deeper into the micro – macro dynamic. The analytical potential of the composite trust concept illustrates the analytical potential of grounded theory method. This potential is, I suggest, enhanced by the combination of a core concept and general sociological terms. The combination raises the level of conceptual abstraction and reduces the gap between a grounded theory and sociology.

Grounded theory allows for the import of coding families (Glaser 1978, 1998), which use general sociological terms as auxiliaries in coding. In the composite concept of trust, this is taken a step further as the terms are incorporated in the concept. This is perhaps not totally in line with the classic grounded theory tradition, but it enhances the analytical potential – an aim which has to have precedence over procedural compliance and purity of method.

5.11 Rejection of existing theory

The strength of grounded theory method is the explorative approach and the aim of theory generation and discovery. At best this stimulates creativity and originality and contributes to bringing research forward. As a premise, this requires approaching the field without preconceptions and predefined hypothesis (Glaser & Strauss 1967, Glaser 1978, 1992, 1998). In Glaser & Strauss seminal work (1967:253) a combination of readings and insight from the field is recommended, in later (read Glasereian) versions of grounded theory, the warning about preconceptions is linked to advice about avoiding initial literature readings. This advice in combination with the refusal of hypotheses seems to have conveyed the impression that grounded theory rejects existing theory.

Integration between grounded theory and other theories contributes to the development of cumulative knowledge – how to weave grounded theory based conceptualisation into knowledge based on conventional theory. Grounded theory method was developed in opposition to existing theory. In the literature the focus of the discussion of the relationship between grounded theory and other methods is mainly on elements that separate grounded theory from other theories, rather than an integration of theory. The rejection of researcher positioning, the idea that concepts are emerging from data, the emphasis on generating and not verification, the dictum about not forcing data, postponing of literature reading and the focus on the development of substantive theory – when these elements are taken together they can easily distance grounded theory from conventional theory; both logic-deductive and constructivist theories, and may also function as a possibly unintended rejection of existing theory.

The separation logic is reinforced in several ways. There are few if any references to non-grounded theory studies in Glaser's books. This and the establishment of Grounded Theory Institute with its journal *The Grounded Theory Review* and book series dedicated to classic grounded theory, protects the method from critical questions and prevents influence from new theoretical developments. This exclusiveness is a double-edged sword as it protects the classic grounded theory but demonstrates a dismissal of the existing research community so that the method can be interpreted as rejection of other theories. It is likely that this functions as a barrier against exchange and the cumulative development of knowledge. Classic grounded theory researchers risk being socialised into separate research communities, alien from non-

grounded theory studies, and end up in a kind of lock-in situation in the grounded theory community.

This separation logic was not necessarily intended in the seminal work by Glaser & Strauss, but has grown as a kind of misinterpretation of the method, partly enhanced by Glaser's 'protective' attitude. Last but not least, this development 'protects' the established research community from being exposed to the alternative perspectives that grounded theory represents. In defence of the protective position; it should be read as a protection of researcher creativity and stimulation of analytical openness and sensitivity, but in the long run this position represents a risk of isolation and through this a weakening of works in the classic grounded theory tradition.

As a whole these elements distance grounded theory from existing theory and the cumulative development of knowledge. Separation makes it harder to generate theory and to integrate grounded theory and existing theory, while openness will have positive effects. A critical step toward integration is to move from description to abstraction and generation of theory. Elements and concepts from existing theory can contribute to strengthening this process, facilitating categorisation and conceptualisation and raising the analytical power of a grounded theory. In addition greater openness will prevent the development of a grounded theory lock-in state, and facilitate integration between grounded theory and existing theory.

5.12 Integration of existing theory - a process with four positions

The thesis explores the sociological roots of the grounded theory of trust and how sociological concepts can contribute to expanding the empirical grounded theory of trust. The aim is to show that this combination and integration of grounded theory and sociological theory extends our insight into trust as a pervasive and dynamic social phenomenon. A premise for the discussion is that a grounded theory is accepted as a contribution to sociology, but this is not necessarily the case. Grounded theory has its roots in sociology and requires sociological skills, but it is developed in contrast to the quantitative, verification and hypothesis-based version of sociology (Glaser & Strauss 1967). These elements indicate an ambiguous relationship between grounded theory and sociology. As pointed out earlier, grounded theory appears to distance itself from this form of sociology, which in turn, appears to give limited recognition to grounded theory.

An insistence on rigorous methods is a means of making grounded theory visible as a scientific method and legitimising the grounded theory as a scientific theory, but this may be insufficient. The sociological community of knowledge may, for instance, not accept grounded theory works as valid contributions unless it is made explicit how a grounded theory can be integrated with, and contribute to, sociology. In grounded theory the term *integration* refers to how conceptual categories relate to another in a systematic fashion (Simmons 1994:60). Integration of a grounded theory with existing theory is rarely explicitly discussed, but the writings on the use of literature in grounded theory provide some clues about the relationship to other theories. The following discussion refers to the relationship between grounded theory and sociology, but the positions can be also applied to the relationship between grounded theory and other theoretical perspectives.

There are several possible positions about how to integrate a grounded theory and existing theory. Based on the discussions in the methodological chapters I suggest four positions which relate grounded theory and sociology: 1) *separation*; grounded theory and sociology are separate communities of knowledge; 2) *incorporation*; sociological elements are used in the generation of grounded theory; 3) *integration*; grounded theory is worked into the sociological body of theory; or 4) *synthesis*; grounded theory and sociology are merged into a new unified theory.³⁷ Each of these options can be further specified; they have different implications for development of theory and methods, and are more or less ‘acceptable’ in the respective communities of knowledge. The positions must not be regarded as dichotomous, but as a continuum stretching from a somewhat superficial relationship, referred to as separation, and the fourth position which is more a synthesis of two theoretical bodies.

The first position, *separation*, is probably perceived as the most characteristic position for classic grounded theory in relation to sociology and is referred to just throughout the discussions in the thesis. The separation position recommends postponing of literature studies, but allows for inclusion of existing literature as data in later stages of the generation process (Glaser 1978). Existing literature should not be used as a key and yardstick, and it is recommended that footnotes are used to integrate the generated theory into existing literature. This means that existing theory can be credited in footnotes as sources of ideas, but the

³⁷ The words *incorporation* and *integration* can be used as synonyms according to the Merriam-Webster on-line dictionary (<http://www.merriam-webster.com/dictionary/>), but the definitions are a little bit different, and this difference is the basis for the use here.

generated theory has precedence and should be accentuated in writing (Glaser 1978). As suggested above, this position may exclude grounded theory from other communities of knowledge, and inhibit grounded theory contribution to the cumulative development of knowledge in for instance sociology.

The second position, *incorporation*, is the use of sociological theory elements or terms in the process of theory generation, for instance axial coding (Strauss & Corbin 1998) or coding families (Glaser 1978, 1998). Literature readings are not necessarily postponed and there is a possible risk of forcing preconceptions on data. This position establishes deeper connections between grounded theory and sociology through the use of theoretical codes. Theoretical codes represent traditional sociological perspectives on social action; they are an element in the researcher's theoretical sensitivity and incorporate sociological perspectives into the grounded theory. Theoretical codes establish connections between the substantive codes and incorporate the grounded theory by relating the concepts to each other. Through this sociology is absorbed into the grounded theory. The incorporation position appears to be overlooked in the mainstream picture of grounded theory's relationship to existing theory, perhaps because theoretical codes are abstract and the use of them appears somewhat implicit. Theoretical coding is difficult, and it is the least understood aspect of theory generation according to Glaser (2005:11). The use of sociological theory as data in theory generation can also be regarded as absorption of sociological theory into a grounded theory.

The third position, *integration*, means that grounded theory is worked into sociology and can modify or reconstruct existing theory, for instance by strengthening the empirical grounding of sociology. Integration indicates an acceptance of grounded theory as a contribution to the cumulative development of sociology. Through integration the grounded theory can be absorbed by sociology, but according to Strauss (1994:365) grounded theory should be linked to other grounded theories and not to speculative theory, for instance such as hypothetic deductive sociology. This recommendation can restrict grounded theory's potential to contribute to the cumulative development of knowledge, and this is a disadvantaged position for both grounded theory and other theory.

The fourth and final position, *synthesis*, means to combine, relate and integrate grounded theory and sociology into a unified whole and to generate new theory. The new theory is characterised by the work and fit of a grounded theory and has a sociological frame and

grounding. Sociology extends the content and analytical power of a grounded theory, and the empirical basis of sociological knowledge is expanded through integration of a grounded theory. Synthesis will probably work best with theories on the same analytical level, but this needs to be explored further.

Classic grounded theory method does not discuss synthesis, but according to the arguments previously set out in the thesis, it is likely that this position will be rejected by the classic proponents of grounded theory. On the other hand, synthesis does not necessarily transform the basic procedures in grounded theory method; it is an opportunity to supplement and expand a generated grounded theory, rather than forcing the data or bending the theory. The aim of synthesis is to strengthen and increase the relevance of the grounded theory by further grounding, in addition to contributing to the expansion of existing sociological knowledge. This benefits grounded theory as well as the cumulative development of sociological knowledge.

The different positions are summarised into a table of integration levels, presented below.

Table 1 Integration levels

<i>Level</i>	<i>Characteristics</i>	<i>Implications for theory development</i>	<i>Relationship to the sociological community of knowledge</i>
<i>Separation</i>	GT* and sociology are separate communities of knowledge	Existing theory can be used as data in GT	No exchange of knowledge between GT and other communities of knowledge
<i>Incorporation</i>	Sociological elements are used in the generation of GT	Existing theory can be absorbed into GT	One sided flow of sociology into GT
<i>Integration</i>	GT is worked into the sociological body of theory	Existing theory can be modified by GT, and GT is provided a theoretical grounding	Interaction between communities of knowledge, cumulative development of knowledge is possible
<i>Synthesis</i>	GT and sociology are merged into a new unified theory.	Strengthening and increasing the relevance of the GT	GT contributes to cumulative development of sociological knowledge

* Grounded theory

The next and theoretical section attempts to integrate the grounded theory of trust and sociology, and contribute to the cumulative development of the sociological knowledge about trust.

5.13 Conclusion: A formal grounded theory of trust?

A formal grounded theory is not a grand theory; it is a middle-range theory with an extended empirical grounding compared to a substantive theory. The expanded substantive basis for comparison and sampling can be similar to or different from the basis of the substantive theory (Glaser 2007).

The composite concept of trust for instance, was developed for the relationship and interaction between customer and savings bank, but has been generated into a formal grounded theory about the development of trust as a basic social process. This was not the aim from the outset, but the substantive theory has been applied in several studies and has demonstrated work and fit in various empirical contexts quite different from the substantive field from which it was generated. Generation and applicability of the formal grounded theory was strengthened by the use of sociological terms, but is the incorporation of these terms an attempt to order mass data or do they force data?

In the generation of the composite concept of trust, the sociological terms were incorporated on a substantive level and had an ordering function; they clarified the overall picture and enhanced parsimony, which is one of the hallmarks of a theoretical contribution (Whetten 1989). The incorporated terms were grounded in the substantive categories, not the other way round. This is the difference between conceptual forcing and integration. In this case the sociological terms are abstractions and generalisations based on the substantive content. The terms strengthen the empirical work and fit of the composite concept of trust, which is a concept that has the character of a formal grounded theory. On an abstract level the theory explains the premises for the development of trust, how the trust process unfolds and predicts how trust can be broken. The theory works in analysing empirical trust processes at a micro level, by analysing the social configuration of trust at the macro level, and it fits by analysing trust in different empirical contexts.

The use of sociological terms as theoretical codes strengthens the grounded theory of trust. This indicates that there is a huge unused potential for the development of formal grounded theory, although this is ignored in the method and mostly unexplored by its users. Generation of formal grounded theory with sociological terms enhances the potential for abstraction and generalisation. It enables grounded theory to make a more feasible contribution to the cumulative development of knowledge in sociology, and expands the potential for generation of formal grounded theory, as long as the sociological terms are incorporated in a way that maintains the work and fit of the theory. The current distance between grounded theory and existing theory has to be replaced with integration, and this is not only a practical task but also a question of how this relation is perceived and discussed in the grounded theory literature.

The use of sociological terms is referred to here as sociological grounding. The actual sociological grounding is the theoretical work presented in the next part of the thesis and is an exploration of how elements in the grounded theory can be integrated with sociological theory. The literature is used in a way that supports sociological grounding. It means integrating the composite concept into sociology, discussing the existing theory of trust in the light of the composite concept, and exploring how this concept contributes to expanding the existing theory of trust. Glaser & Strauss (1967) state that grounded theory concepts can contribute to extending existing theory, and Glaser (1998:207) recommends incorporation of literature as it strengthens the grounded theory so that it can be integrated and contributes to a field. Existing literature should be used to complement or contrast the grounded theory, not as a key to prove the functionality of the grounded theory concept (1978:131). Integration has to take place on the premises of grounded theory with the intention to modify and/or supplement existing theory, not vice versa.

The sociological grounding facilitates generation of a formal grounded theory and strengthens the integration between grounded theory and sociology. This is beneficial for both; sociological knowledge in a substantive field is expanded and grounded theory gains ground and strengthens its legitimacy. Last, but not least, if there is a synthesis between a grounded theory and sociological theory, new knowledge and insight is generated.

5.14 Contributions and further research

The theoretical project of the thesis is to establish a sociological grounding of the *composite concept of trust*. This is also an exploration of a synthesis between an empirical grounded theory of trust, general sociological theory and sociological theory of trust. The theoretical elaboration explores how the grounded theory of trust is rooted in sociology, how sociological concepts can be applied together with the composite concept of trust and how this synthesis can provide new insight into trust as a dynamic social phenomenon. In one sense this project presupposes that a grounded theory is accepted as a contribution to sociology, recognising at the same time that this may not be the case.

The substantive concept of trust was expanded to a composite concept in a formal grounded theory – a conceptual framework – for analysing trust as a dynamic social phenomenon. The aim of this thesis is to explore and present one perspective on trust as social processes; it is not *the* ultimate theory about trust. The conceptualisation is *a* grounded theory – not *the* theory about trust as a process of social construction. It is a sensitising conceptualisation (Blumer 1954), the concept directs the analytical focus; what to look for in a study of trust. This grounded theory of trust has its methodological roots in social constructivism which acknowledges that *our understandings are not everlasting truths, but dynamic social constructions and suggestions of knowledge*. The dynamic perspective on trust is in line with the classic grounded theory methodology (Glaser and Strauss 1967).

The composite concept works and fits in studying trust processes on micro level; as social construction of meaning and mutual understanding, and as social configuration of trust; this is the interaction of the three social bases of trust. These processes can be further explored on the micro as well as the macro level.

The contribution to further development of grounded theory is through the exploration of understudied possibilities for the development of formal grounded theory and the elaboration of how grounded theory and sociology can be integrated. This is presented as four positions for integration, needing further research. The aim of grounded theory is not a rejection of existing theory, but as a means of liberating researchers from the “slavery of theoretical capitalists” and stimulating empirical exploration and conceptual creativity. An open attitude towards existing theory will enhance grounded theory’s potential for contribution to the

cumulative development of knowledge. To conclude with a quotation from Glaser (2007: 115):

*'if we do not practice such modes of extending grounded theory (generating formal theory), we relegate SGT's <substantive grounded theory> to the status of respected little islands of knowledge, separated from others - each visited from time to time...'*³⁸

I will add that generating formal grounded theory is not sufficient. It has to be related to, and integrated with, existing sociological theory, and in the next instance applied to empirical settings with the aim of continuous generation in order to acquire deeper understanding. The rest of the thesis is one example of how this can be done.

³⁸ With reference to the book *"Time for dying"* by Glaser & Strauss 1968.

PART

II

THEORY AND INTEGRATION

6. TRUST – MUTUAL UNDERSTANDING AND DYNAMIC SOCIAL CONSTRUCTION

*'Trust is a quintessentially social reality that penetrates not only individual psyches but also the whole institutional fabric of society.'*³⁹

– DAVID LEWIS, ANDREW WEIGERT

The literature review discussed trust as a concept; the following five theoretical chapters which constitute the main body of the thesis explore trust as a phenomenon and process of social construction. It is an exploration of how the social processes and qualities of trust discovered in my grounded theory study of trust are elaborated on in sociology. The aim is to situate the grounded theory of trust within sociological theory and to do a sociological grounding – that is to integrate the grounded theory with sociology. This does *not* mean using sociology as yardstick, but rather to expand the existing knowledge of trust and integrating a grounded theory perspective with sociological theory.

The focus in the first of the five theoretical chapters is *mutual understanding*; the core concept in the grounded theory of trust. As previously pointed out, this concept is generated from empirical data and refers to social processes that generate trust. Elements of the processes discovered in the grounded theory are general social processes theorised in sociology, but not explicitly related to the development of trust. This means that the theoretical body of the thesis contributes to development of new knowledge, both theoretically and methodologically. It expands the knowledge about trust as a social phenomenon and about the relationship and integration between grounded theory and sociology.

The aim of this chapter is to situate *mutual understanding* in sociological theory and explore how social processes conceptualised as mutual understanding and some of the main characteristics of trust are elaborated on within sociological theory. The conclusion summarises the discussions and suggests a process perspective on the development of trust. The chapter focuses on the actor level while trust as a social quality on the societal level will be discussed in the chapter about structural trust.

³⁹ Lewis, Weigert 1985:969

6.1 The social construction of trust

What is the trigger for trusting? Empirically this huge question has probably an unlimited set of answers. This thesis suggests that *development of mutual understanding* is one possible analytical approach to understanding how trust is generated. To trust is to *make a leap of faith*. This means to take the risk of presupposing and acting on the basis of a mutual understanding which may or may not be confirmed.

Trust is generated in the social processes of interpretation and construction of meaning. It emerges in the interaction between social reality and individual perception, and is developed ‘within a framework of interaction which is influenced by both personality and social system, and cannot be exclusively associated with either’ (Luhmann 1979:6). Trust is an individual emotion with a social basis (Lewis, Weigert 1985:969); it is a state and a dynamic process of social construction (Giddens 1993, 1993a, Nordnes 1993, Bijlsma-Frankema & Costa 2005) and it is an outcome when expectations are sufficiently fulfilled and develops through numerous daily procedures and rituals.⁴⁰

Social construction is based on shared knowledge of social settings, structures, and relations; these are the *pre-contractual*, *relational* and *structural* bases for trust. Knowledge is the basis of expectations and trust is the belief that they will be fulfilled to a reasonable extent. Shared knowledge is acquired through socialisation, which means internalising the social reality and transforming it to subjective reality (Berger and Luckmann 1991). Through internalisation, ownership of the social reality is achieved and transformed to become ‘my world’,⁴¹ a world or social reality that is partly, but not exactly the same as yours. *The shared social elements* are the social basis for expectations and predictions about the other and whether trust should be given.

‘Trust, in the broadest sense of confidence in one’s expectations, is a basic fact of social life’ asserts Luhmann (1979:4). An actor has more or less faith and self-assurance in his expectations (Luhmann 1990), a faith that can be related to ontological security; to a basic, existential trust and ‘the courage to be’ (Giddens 1993a:38). This individual element of

⁴⁰ “Sufficient” is an individual construction, dependent on elements such as relation, situation, interaction and context.

⁴¹ In terms of J. Piaget – adaption to the social reality through assimilation and accommodation (Evenshaug and Hallen 1979)

trusting is only one half of the process. Trusting is also a social quality; the construction of a shared social world and the relationship between me and you. This relationship emerges through interpretation and interaction and the development of mutual understanding between us.

Expectations are at the heart of social interaction and process of social construction, but they are not sufficient to generate trust in social relationships. Different modes of expectations have different social bases; for instance interaction, formal structures or taken for granted social patterns. These bases are the social foundations of trust; they reduce risk, secure expectations and create predictability. These social bases for trust are the springboard for making the *leap of faith* which is the process of trusting (Giddens 1993a). The term *mutual understanding* conceptualises this relationship as a process and springboard for making a leap of faith – *the suspension of doubt and leap into trusting*.

The conditions for making the leap of faith and the characteristics of the social bases of trust are the theoretical and analytical focus of the thesis and will be explored throughout the theoretical part.

6.2 Trust and expectations

Expectations are important in the social construction of trust. Unpredictability, social risk and complexity imply that action is based on an inverted time-causality, that assumptions of the other's future actions steer today's actions. Expectations about the other, about the future and the possible outcome of potential actions guide to-days actions. Expectations are based on knowledge, emotions and interpretation; they bridge the present and the future, create a sense of predictability in everyday life and are the basis for making decisions. Human beings have to take some social premises for granted and act on the basis of expectations and anticipations of possible consequences (Barber 1983, Dasgupta 1990, Luhmann 1979, March and Olsen 1989).

The content of expectations is both social and individual. Through socialisation and internalisation, the individual acquires social roles and scripts; these are patterns of roles and 'typifications of habitualised actions that constitute institutions are always shared ones' (Berger and Luckmann 1991:72). But institutions are not actions; they are produced and

reproduced through social action (ibid). Social action is more or less predictable; although free will facilitates unpredictability as do role interstices (Seligman 2000) and the extent of institutionalisation (Berger and Luckmann 1991). Social action and interaction are about construction of meaning, and this implies that social institutions are subject to individual interpretations. Social action and interaction, then, are about trust; trusting that the other will behave as perceived.

To trust I need confirmation that my perceptions to some extent are shared and that the other will behave in accordance with them. This mutual understanding will vary, for instance according to the level of familiarity, basic trust, pre-contractual trust, and timeframe. In instant trust situations, a nod or a glance could be sufficient confirmation of the necessary level of mutual understanding of a few constitutive and particular expectations. The development of a love relationship can be a lifetime trust relationship incorporating a number of various obligations with all kinds of expectations: background and constitutive expectations, as well as specific and unspecific, long-term and short term based expectations.⁴² In long-time relationships, mutual understanding has to be confirmed repeatedly; there has to be mutual understanding about some basic, general practices and obligations, and some of these can probably be renegotiated.

Some theorists equate trust and expectations; among them are Barber's (1983) and Zucker's (1986) early sociological work on trust. According to Zucker, trust is an expectation that is taken for granted, and Barber refers to expectations as both meaning and trust: 'Expectations are the meanings actors attribute to themselves and others... In its most general sense, trust means the expectations' (Barber 1983:9). This general and comprehensive definition juxtaposes trust and expectations. Even though both trust and expectations express an assessment of future events they are not identical. It is possible to expect a breach of the law or a moral obligation – a belief in this is not to trust. Trust is one kind of expectation in contrast to distrust, which is another kind of expectation. Trust and expectations are not identical, any kind of expectation is not trustful; expectations or rather the content of expectations have to be considered apart from trust.

⁴² The various forms of expectations will be further discussed in chapter 9 about relational trust.

Expectations are assumptions about future events either in the short run or far ahead. We have expectations about fulfilment of a social promise, we have a social basis for our anticipation about fulfilment of the promise, and if we conclude that the other will fulfil the promise, then we bestow trust. Trust is a state and social quality; it is a belief in mutual understanding and develops through fulfilment of expectations. Through trusting a perceived risk is eliminated.

On the other hand, trust is based on expectations; they are elements in, and the basis for mutual understanding, elements that serve to “secure” the leap of faith. To trust is a belief in one’s expectations and in that sense, trust is an expectation.

6.3 Reduction of social risk and complexity – the function of trust

Expectations may be implicit, in which case they are ‘baked into’ role patterns and formal structures, or they can be experience-based, that is based on previous interaction or communication. But a social pattern does not last for ever, and predictions and expectations can never be entirely sure. Interaction may have intended as well as unintended consequences, both of which generates social risk, hence social interaction can be a risky social ‘investment’.

Human beings have free will; they are subjective, often unpredictable and non-rational. A and B will never perceive the world in exactly the same way, neither can be sure of the other’s motives, intentions and future actions, or that the other will act in accordance with expectations or predictions. Expectations are social constructions; they are based on an interpretation of the situation. Actors may not have an identical reading of a situation, despite their belief that this is the case and their different understandings are revealed through interactions. If they have been interacting on the basis of different social scripts and codes, expectations are not fulfilled and trust may be infringed. This is because there is always a risk of unforeseen circumstances, of opportunism, fraud, technical breakdown or disasters – even passivity and refraining from action can have social consequences (Bateson 1985).

The unknown future, free will and the potentially unlimited possibilities of action in our time are sources of social risk and complexity. According to Luhmann (1979:4) ‘trust, in the broadest sense of confidence in one’s expectations, (is) a basic fact of social life’. To be trusted is a social gift, trusting is about the actor’s belief in their own expectations, the degree of security the actor has in his or hers predictions about the other’s actions, and it is about

social coordination mechanisms on societal level. 'Trust reduces social complexity by going beyond available information and generalising expectations of behaviour in that it replaces missing information with an internally guaranteed security' (Luhmann 1979:93). This internally guaranteed security is partly individual personality qualities, such as self-confidence and basic trust (Giddens 1993, 1993a, Misztal 1996) – psychological qualities acquired through socialisation – and partly security as an effect of the social process of sense-making.

Social complexity is man-made and intensified through the expanding freedom of choice in every area of life. Religion and other social constraints play a diminishing role as social guidelines. In one sense the modern man is set free to act in a way that is socially unpredictable, the opportunities created by actions and selections appear unlimited and this enlarges social complexity. According to Luhmann (1979:39):

'It is through systems of special kind, namely human beings, that there comes into the world that enlargement of complexity on which trust is focused: freedom of action. Trust then, is the generalised expectation that the other will handle this freedom, [...] in keeping with the personality which he has presented and made socially visible.'

To keep with *the presented and socially visible personality* is a tacit promise about acting as expected and in accordance with common social rules. The tacit promise creates social predictability and is a premise for social interaction and development of trust. We normally take for granted that others will keep the social promise and behave as expected. The expectation of fulfilment of this obligation is a basic premise for the leap of faith and trusting. Mutual understanding is an anticipated confirmation of intentions of keeping the tacit promise and maintenance of trust depends on confirmation of this promise through action.

To trust means to act on expectations of future actions and trusting implies the freedom to choose to take a risk or to choose to exit from a situation of no trust. Trust is an inner conviction and 'a pure social construction which answers to our need for security by *seeming to be a fact when it is always a projected assumption*' (Lewis and Weigert 1985:982).⁴³ To feel certainty in this projected assumption, we have to have something in common with the other. *The common element creates predictability and is basis for the will to believe that the other will act as expected.*

⁴³ My italic

The function of trust

Trust is necessary to fill the contingency gap between expectations and action, its function is to reduce social risk and complexity by reducing uncertainty and suspending relational risk (Luhmann 1979, Gambetta 1990a:219, Misztal 1996, Sztompka 1999). By trusting, one makes generalisations from the known to the unknown; in one sense trust is a substitute for the unknown. This substitute has social foundations; the *pre-contractual*, *relational* and *structural* bases for mutual understanding. The bases for mutual understanding are the social source of knowledge in which the trust rests and is generalised from.

A shared social basis is the foundation for forming expectations and for trusting that expectations will be reasonably satisfied. To trust is to assume that one's social constructions are shared by the other, that they are socially accepted and that tacit and explicit promises will be fulfilled. Expectations are social constructions and are based on an interpretation of the situation. Interaction partners may not have an identical reading of a situation, they may believe and presuppose a mutual understanding, but through interaction it becomes evident that their understandings are different and hence they have been interacting on the basis of different social scripts and codes, their expectations are not fulfilled and the result is crumbling trust. When the other acts in accordance with the mutual understanding, trust is confirmed and trust is maintained.

Mutual understanding is the basis for trust and *deception*. Deception means to convey the impression that one aims to fulfil the tacit promise which is a foundation for mutual understanding and trust. The betrayer confirms a false mutual understanding. When the victim makes a leap of faith, trust is achieved; the betrayer has got the necessary trust to fulfil the deception. The relationship between trust and deception is a huge discussion, but will not be explored further here.

To sum up, the function of trust is social and oriented towards to the future – trust facilitates social action, 'to show trust is to anticipate the future. It is to behave as though the future were certain' (Luhmann 1979:10) and according to Misztal (1996:24): 'to trust is to believe that the results of somebody's intended action will be *appropriate* from our point of view', and (Misztal 1996:18) '[...] in fact, to trust is to believe despite uncertainty.' Trust is a belief in a shared tacit promise to act in a foreseen way and in accordance with common social rules. It is a belief that the other will act and behave in the way she/he has made socially visible and

which we anticipate. Trust is *A*'s assumption that *B* will act and perform in the way *A* anticipates on the basis of *A*'s interpretations of the social reality. Maintenance of trust depends on an expected confirmation of this promise through action.

6.4 Mutual understanding – a shared promise

As previously indicated, trust is both an individual feeling and a social quality that develops through social processes. In addition to the basic trust, which is the psychological courage to be and to take the risk to participate in social life, the individual trust process needs a social foundation, a contextual basis which serves to secure the belief in others' fulfilment of one's expectations. This social foundation is the source of trust; it is necessary common ground for social action and *the springboard for developing mutual understanding and making the leap of faith*.

The leap of faith

Basic trust is not sufficient as a basis for the suspension of doubt. *Reciprocal confirmation of mutual understanding is the necessary 'trigger' to make the leap of faith*. This confirmation is at the heart of social interaction. It is a confirmation of each other as socially competent, as mastering the relevant social scripts and as able to foresee and adjust to the other. In an interaction where *B* sufficiently confirms *A*'s definition of the situation and vice versa, this is a confirmation of mutual understanding that facilitates suspension of risk and triggers the leap of faith. This last 'phase' in the process of trusting is a non-rational process; it is the suspension of doubt in whether the other will fulfil the social promise or not. This process of suspending doubt means making the leap of *faith*. The moment of suspension gives an 'element of socio-psychological quasi-religious faith' and 'a state of mind that has nothing to do with knowledge, which is both less and more than knowledge' (Simmel 2004:179). This state of mind is, according to Giddens (1993a: 19) 'a leap to commitment, a quality of "faith" which is irreducible'.

Faith is the crucial element in development of trust, and according to Giddens (1993:27):

'Trust, in short, is a form of "faith," in which the confidence vested in probable outcomes expresses a commitment to something rather than just a cognitive understanding.'

Trust is 'the vesting of confidence in persons or abstract systems, made on the basis of a "leap into faith" which brackets ignorance or lack of information' (Giddens 1993a: 3, 244). Trust is 'a way of coping with the limits of our foresight' (Gambetta 1990a:218 with reference to Shaklar 1984:151). Trust makes us act as if the risk is eliminated. A shared social basis contains cues for bestowing trust, but 'The clues employed to form trust do not eliminate the risk, they simply make it less' and 'serve as a springboard for the leap into uncertainty' (Luhmann 1979:33). This leap into uncertainty means to trust. The trustor makes the leap of faith (Möllering 2006), that is surrenders her vulnerability to the trustee.

The social risk is generated by others' free will to act unexpectedly, and combined with other possible risks it constitutes an element of doubt and uncertainty. Suspension does not eliminate the uncertainty, but makes it manageable (Möllering 2005:296). Suspension of doubt is facilitated by 'bracketing out' the risk as if it is solved or manageable (Luhmann 1979). Möllering relates the capacity to suspend doubt to basic trust and ontological security, which according to Giddens (1993) is fundamental for taking the risk of suspending doubt and making the leap of faith. Möllering (2001) with reference to Giddens (1991) emphasises the importance of one element in the leap of faith: *the suspension of doubt* – that is, 'the bracketing of the unknowable, which represents a defining aspect of the nature of trust' (Möllering 2001:417). By holding back doubt, it is possible to suspend doubt and believe in fulfilment of one's expectations.

The process of developing mutual understanding refers to the connection between actors and their common social basis for development of trust, and this process is the foundation for suspending doubt and triggering the leap of faith. To trust is to believe in one's expectations and assume that the other will behave in the way we expect.

Möllering (2006) discusses this as 'the will to believe', and asserts that 'this is still in the beginning of a new direction in trust research' where suspension of doubt is very central to the concept of trust. The suspension of doubt about whether the other will fulfil the social promise and make the leap of faith is the critical step in the trust process, 'suspension is the essence of trust' according to Möllering (2001, 2005, 2006:110). The leap of faith is a non-

rational process; one can never be sure, but has to suspend the doubt and believe in the other. The confirmation of mutual understanding installs a belief in the others willingness and capacity to fulfil the social promise – and triggers the leap of faith.

Modernity and the transformation of faith into trust

Faith is defined by Webster (1998) as ‘Belief without evidence’. A leap of faith implies that the deciding step in the process of trusting is *to believe without evidence*. Is this faith a religious quality and therefore out of analytical range? *Faith* is ‘trust in God’ asserts Seligman (2000:21), and warns against collapsing trust into faith as ‘The defining characteristic of faith is precisely its unconditionality and the same is true of trust – with important differences between them’ (ibid: 44). The difference is that faith is in God and trust is in man. This apparently trivial insight is substantiated by Seligman (2000) through a rather complicated argument (at least from my sociological point of view). In a simplified version the argument goes like this: Faith in God is based on the *otherness* of God, the sacred and ‘highly exceptional and extremely impressive Other’ in relation to man. ‘*Ein begriffener Gott is kein Gott,*’ as ‘the totally other, God can never be known’ (ibid: 46) and has to be grasped through faith.⁴⁴ During the Protestant reformation and the further secularisation, the godly was replaced by human attributes, and thus ‘the search for faith is replaced with the search for trust.’ (Seligman 2000: 49).

A key element in Seligman’s explanation of the transformation from faith in God to trust in man is the perspective on trust. According to Seligman (2000:25), ‘trust enters into social interaction in the interstices of system, or at system limit, when for one reason or another systemically defined role expectations are no longer viable.’ These are situations of unconditionality, a kind of “pure” social situations, ‘unconditioned by the different roles and statuses the participants hold within the social system’ (ibid: 45). These are situations where we have to trust, that is, to make the leap of faith, and the basis for this faith ‘It is in the very otherness of the Other that one puts one’s “faith” and not in any communality of traits shared’ (Seligman 2000:45). This otherness is not the same otherness that God represents. ‘God is conceived of as an “object” existing “over against the self”, as the totally other, God can never be known’, while ‘the Self is in no sense an Other [...] it [...] is what we already and

⁴⁴ Italic in text

fundamentally *are*' (Seligman 2000:46, with reference to Lovejoy 1961). Man's common fellowship with God is the basis of the relationship between men, according to Christian thought. Secularisation 'removed' God, and the godly was replaced by human attributes. This process led to the emergence of 'a direct relation between the individuals unmediated by the third relation common to both.' (Seligman 2000:49). This relational transformation led to 'the replacement of faith by trust (or rather, the search for faith with the search for trust)' (ibid: 49).

The trust in the other's otherness is an expression of "faith" in the other as a self. The 'trigger' for making the leap of faith, I state, is *that we have faith in the other's sociability; in the other's otherness and believes that this otherness is manageable because the other is as oneself*. My point is that making the leap of faith as a minimum presupposes a mutual understanding and confirmation of this sociability. This is to put one's *faith* in the very otherness. And otherness as described here is related to the modern man with the free will to act without social constraints, but with sociability, that is acting as an individual but in accordance with common social frames.

Erosion of social bases for trust?

Seligman's (2000) elaboration on trust appears, among other factors, to focus on trust as a kind of 'last resort' for the modern human in a world of transformation and social interstices in established roles and patterns for interaction. As Seligman points out (ibid: 74):

'Only when the will of the other can no longer be conditioned – or rather when its conditionality can no longer be imputed on the basis of either familiarity in shared strong evaluations or confidence in the fulfilment of role expectations – does the problem of trust emerge in social formations and only then does Kirkegaard's "leap of faith" become orientated toward a mundane order rather than a transcendental one.'

Trust, from Seligman's perspective, stands out as a quality that provides a bridge between the known and the unknown/unconditional in a risky social landscape imprinted by negotiation and increasing interstitial moments.

This landscape of modernity involves changes and disruptions that undermine the basis for familiarity as well as for confidence (Seligman 2000) – the demand for trust increases. The leap of faith presupposes mutual understanding, and the basis for this is the self with free will, the otherness and the sociability. This means that social appearance and social interaction are

key processes – they are the basis for trust – my trust in you and your trust in me. The importance of the self, of developing self-identity, and the omnipresent focus on the individual is an expression of this mixture of self and otherness that is a necessity for modernity as well as for developing trust in the age of modernity. The development of modernity presupposes the individual agent with free will and ‘a moral locus of autonomous willed activity’ (Seligman 2000: 165).

But continuous differentiation processes have led to a looser fit between the actor and the role, the social basis for role expectations loses importance, and every aspect of role behaviour and mutuality becomes negotiable. The more negotiation, the more need for trust (Seligman 2000:41). Taken to its social limits, this negotiability implies that the borders between role and person disappear, the actor ‘dissolves’ into the social, and group affiliations gain an importance similar to pre-modern times. These processes can lead to ‘the loss of all individually constructed boundaries between roles and their replacement with the type of public social regulation that characterised earlier periods’, (Seligman 2000:168). By this, Seligman does not argue for a return to a kind of pre-modern condition with tight roles and social control. He argues for a fixed point; an essence of the self that is not negotiable, transformable or an object for self-reflexivity.

If Seligman is right in his claim; that we are about to embark on the dissolution of the self – what is then our basis for the leap of faith? Do we have to turn our faith to God and base mutual understanding on creating familiarity through belonging to various communities, on ascribed familiarity, and strengthen our dependency on powers and feel confidence rather than trust – that trust based on a leap of faith disappears? From my point of view, this is the road to a totalitarian society, a society based on power rather than trust. We are not there yet, but seem to be in a social condition where the self and personal relationships have an increased importance as social basis for trust and mutual understanding.

Further empirical exploration of trust and transformation of bases of trust, that is changes in the social configuration of trust, will provide insight into the deep connections between trust as a quality on the micro level and as a transformative social force on the macro level. This will be discussed further in the chapter about the social configuration of trust.

6.5 Mutual understanding – a tacit agreement

Mutual understanding is a relational quality and a tacit agreement generated through social interaction. Society is both a subjective and objective reality and trust functions as a social connection between the subjective and the social. In situations of interaction, mutual understanding implies a mutual confirmation of a shared perception of reality. Through

interaction A and B mutually confirm a tacit agreement that they will act in a way that is mutually predictable.

Mutuality is a defining criterion on social relationships, ‘it is essential that there should be at least a minimum of mutual orientation of the action of each to that of the other’ (Weber 1978:27). Confirmation of mutual understanding is a condition for making the leap of faith. This confirmation of the *tacit agreement* is crucial; it is *the social springboard* that makes actors take the risk to suspend doubt and trust their expectations. Möllering (2006:72) asserts that ‘trust is essentially not so much a choice between one course of action (trusting) and the other (distrusting), but between either accepting a given level of assurance or looking for further controls and safeguards.’ Mutual understanding is an individual interpretation of social input, an interpretation that the other shares the social script and a feeling that she will behave in accordance with this. It is the point of accepting a sufficient level of assurance on the basis of some kind of confirmation of a common social basis. This level is constructed through social interaction; it can be taken for granted or take the form of considerate acceptance. Our everyday life is to a great extent based on taken for granted mutual understanding, and when the taken for granted fails, it has to be renegotiated.

Mutual understanding is flexible and contextual; its social basis can be very narrow, but also wide and emotionally deep. For instance, in short-term situations, a glance between two strangers can be sufficient to confirm the necessary moment of mutual understanding that is the basis for trust. Buying a newspaper from a news agent on the street is one example. You put a coin on the desk without saying a word, take a paper, nod or smile to the news agent, get the same greeting back and leave with your paper. There is a mutual understanding between the two strangers; they trust that they share each other’s social definitions of newspaper transactions.

The newspaper example is a situation with low risk. In long term relationships and situations with high risk, mutual understanding needs a broader basis. The confirmation of mutual understanding can for instance be taken for granted, developed through interaction or confirmed by formal structures such as contracts. The moment of confirmation, is to a great extent, an individual interpretation and construction based on social input. A successful output of this “encounter” between the individual and the social is a decision to suspend the perceived risk, to make the leap of faith and bestow trust. Or the output can be the opposite,

where there is not sufficient mutual understanding, the risk is not suspended, and no trust is generated.

Shared understanding and mutual concerns as elements in the development of trust are discussed in the literature. Shared understanding can arise from interactions and from shared or common knowledge (Rousseau et al. 1998). This approach has some similarities with how mutual understanding is applied in the thesis, but according to Rousseau et al., shared or mutual understanding is just a possibility, *not* a defining feature of developing trust. This is the main difference between the perspectives. In the grounded theory of trust, mutual understanding is the trigger of the leap of faith and a prerequisite for trusting.

As previously mentioned, Lewicki & Bunker (1996) also suggest three different forms of trust; identification-, knowledge-, and calculus-based trust (identified by some as “deterrence-based-trust”, see Shapiro et al. 1992). Lewicki & Bunker relate mutual understanding particularly to identification-based trust. This form of mutual understanding is based on identification of the other’s desires and intentions and that ‘the parties effectively understand and appreciate the other’s wants; the mutual understanding is developed to the point that each can effectively act for the other.’ Doney et al. (1998) emphasise shared values, common norms and goals as important for developing trust, elements which taken together appear to resemble the basis for identification-based trust. I find that Lewicki & Bunker apply the term mutual understanding to describe identification processes that are deeper and more extensive than the mutual understanding concept applied in this thesis to describe the basis for the leap of faith.

Mutual understanding as an analytical concept has more in common with what Sydow (2006), Möllering (2006, 2006a) and Lane & Bachman (1996) refer to as common understanding. Common understanding is based on knowledge and familiarity and is necessary for developing trust. In the concept of mutual understanding, the core element is the *mutual process of confirming/acknowledging a sufficient level of shared social definitions* as a platform for the leap of faith.

Mutuality is a defining criterion of social relationship, ‘it is essential that there should be at least a minimum of mutual orientation of the action of each to that of the other’ (Weber 1978:27). Social life is based on mutuality and in the discussion of the concept of social

relationship, Weber (1978:28) states the following about what I will characterise as mutual understanding in a social relationship:

*'The meaning of a social relationship may be agreed upon by **mutual consent**.⁴⁵ This implies that the parties make promises covering their future behaviour, whether toward each other or toward third persons. In such cases each party then normally counts, so far as he acts rationally, in some degree on the fact that the other will orient his action to the meaning of the agreement as he (the first actor) understands it.*

The concept *mutual understanding* has much in common with Weber's phrase *mutual consent*, even though Weber does not relate this to development of trust. Mutual consent means the tacit promise about mutual orientation of actions and a common meaning.

To sum up, mutual understanding, common understanding, shared knowledge and/or values are expressions of various degrees of familiarity and information as basis for the trust process. The concept *mutual understanding* does not mean that there is a deep and total agreement or an amalgamation of understandings, it is a pragmatic concept which means that an assumption from A that B will behave in a way that is sufficiently predictable for A and that B has sufficiently confirmed this. The assumptions about predictability are 'secured' in taken for granted social scripts, existing relationships or formal structures – that is pre-contractual, relational or structural bases for trust.

The contribution of the thesis is the use of *mutual understanding* as a concept to describe the mutual social process as the development of a platform for the leap of faith and the linking of this to trust. Mutual understanding is a defining feature in the process of development and maintenance of trust. It is the prerequisite for trusting. The social process of constructing trust is about developing and confirming sufficient mutual understanding to make the leap of faith into trust. Exploring the dynamics of developing mutual understanding is a key to understanding how trust is developed, maintained and re-constructed.

6.6 Development of mutual understanding

⁴⁵ Bold by me

In the study of trust development between bank and customer, the construction of mutual understanding was discovered as a defining element of the process. The social construction of this relationship was a striving for development of mutual understanding. When this failed, it caused disappointment and erosion of trust. The social construction of mutual understanding as defined here is scarcely explored in the sociological literature, but Luhmann's theory of social systems and communication provides a perspective on emerging social systems that resembles the process of development of mutual understanding (Østerberg 1989).⁴⁶

This can be illustrated in the following way: we may assume that the start of a social system is two black boxes. These are two psychological systems (actors and communication systems) which are neither transparent to each other nor can they predict or control each other. This conditions the emergence of the social system, constituted by the uncertainty and unpredictability of its 'elements' and the contingent situation is overcome through step by step interaction. According to Østerberg (1989: 260, with reference to Luhmann 1984:150):

'The first participant makes a tentative advance towards the other, and waits to see if the other accepts the suggested definition of situation. If an acceptance takes place, a step by step construction of a communication system is feasible whereby uncertainty and contingency is reduced'

Mutual understanding is developed through step by step communication with mutual acceptance and confirmation of the other's definition of the situation. My assumption is that the step by step communication hardly ever starts with two totally black boxes, but with a social basis which that can be rich or narrow. Implicit in the confirmation of mutual understanding is a tacit contract, which implies that interacting partners share definitions of the social context to a sufficient extent, and intend to act in accordance with these. *Belief in these intentions to act is the core of the tacit social contract that breeds trust*; the process of step by step mutual confirmation of each other's social definitions and intentions creates a social trust system. If acceptance and confirmation fail to develop, no mutual understanding is established and there is no 'springboard' for developing trust.

Confirmation of expected mutual understanding is vital to suspend doubt and make the leap of faith. The confirmation acknowledges that B will behave as A expects, that A and B share and

⁴⁶ Østerberg (1989) compares Luhmann's theory of social systems and communication with Parsons system theory and Østerberg refers to his translation of Luhmann's *Soziale Systeme- Grundriss einer allgemeinen Theorie* (1984).

are obliged to adhere to a common social script related to this particular setting. This does not mean that A and B totally agree or have the same values on a deeper level, they may do, but not necessarily; mutual understanding is related to the context of relevance in this particular trust situation. This implies that mutual understanding makes it possible to develop trust in spite of differences – where there is a mutual understanding and acceptance of these differences. As Weber (1978:27) reminds us: 'the subjective meaning need not necessarily be the same for all the parties who are mutually oriented in a given social relationship; there need not in this sense be "reciprocity"'.

The social basis for developing mutual understanding is essential for the social construction of trust. A study of development or disruption of trust must focus on this social basis which is between and shared by A and B. This is the input in the trust process and has both individual and social elements, and trusting develops in a dynamic between the psychological self and the social self.

Trust is both a premise and an outcome of a social process, this implies a 'trust in trust' (Luhmann 1979), a trust that others will trust in the same way that as oneself. The actor has to trust his/her own assumptions, predictions and expectations about the other and to trust that the other will act in accordance with their predictions; that there is mutual understanding, which will be tested through the interaction process.

The development of trust is dependent on a common social basis for the interpretation of the social reality and a minimum of mutual understanding of this basis. Mutual understanding is the prerequisite for the tacit social contract that facilitates suspension of doubt (Möllering 2001, 2006) and the leap into faith (Giddens 1993a). This is to believe in one's positive expectations and accept the vulnerability represented by the other (Rousseau & al 1998). Mutual understanding does not mean total agreement, nor does it mean that the participants in a social setting have the same subjective meaning. It means that the participants have a sufficient level of mutuality regarding definitions of the relevant social setting, acceptance of the rules, and procedures for this context, and that they have intentions to act in accordance with them. Trust is developed or maintained when actors feel that their mutual understanding is confirmed, if this confirmation is lacking, trust will either be weakened or break.

The individual emotional aspect in trust is an element that is hard to determine analytically. Individuals have their own threshold for sufficient mutual understanding to make the leap of

faith and trust in particular empirical relationships. This threshold will vary according to a wide range of variables, such as basic trust, social context, relationship, experiences, and knowledge, just to mention a few. Conditions for developing mutual understanding can be discussed analytically, but the empirical feeling of trust is still out of sociological scope. Pre-contractual assumptions, social relationships and structures facilitate mutual understanding and construction of trust in different ways, and the social configuration – that is the interaction between them – is the key to understanding how social change affects trust.

Garfinkel (1963) performed social experiments that showed how change in social patterns for interaction affects trust, and hence how a taken for granted mutual understanding is disrupted. The disruption caused diminishing trust. The next section discusses this experiment as a further elaboration on mutual understanding.

6.7 Mutual understanding and social scripts

This thesis assumes that mutual understanding and trust is an implicit or explicit human aim in social interaction. This aim is held deeply inside us and is about mastering the social and the self. Trust develops through communication and interpretation processes. Actors attach meaning to actions and interpret them in relation to the context in which they are performed. The sense-making process has both a social and an individual element. Institutionalisation and socialisation are the social elements of making sense, processes that provide actors with social scripts and common codes for interaction and communication. Interpretation and cognition are the individual elements of making sense, but this process also refers to a larger context, the cultural totality stretching beyond the actual situation of interaction. Through processes of assimilation and accommodation, an actor adapts new social realities into her cognitive universe and makes sense of the social reality.

Interaction and communication require mutual exchange of social signs and codes, which are elements of social scripts. In general, interacting actors presuppose and aim at developing and confirming mutual understanding of the common social context (Garfinkel 1963, 1967, Goffman 1967). The common elements are the basis for predictability and expectations, and facilitate mutual understanding.

Challenging the social script

In the following, the term *social script* refers to the whole range of input for social prediction, whether or not it is taken for granted.⁴⁷ The script contains the defining elements of the situation, the context and frame for interaction and interpretation, the norms and values, experiences – the set of ‘recipes for action’ for the situation in question. Social scripts presuppose interaction and mediation between the social and the individual. There is room for individual variation and interpretation of social scripts, and the individual has the freedom not to follow the script. The term *script* emphasises that actors are not forced to follow particular patterns or rules, but that they exist as social and contextual possibilities that to a large extent are internalised by the actor. The term *social* indicates here that we are concerned with practice and rules as well as beliefs, norms, evaluations, interpretations and experiences, and that these are common and shared in a given context or society. To what extent individuals share or feel obliged by social scripts needs more exploration on an empirical level, but trust is eroded if the behaviour or values performed deviate too much from the script (Garfinkel 1967).

⁴⁷ I am aware that this is a particular concept also applied by linguistics, anthropological linguists and ethnographers of communication in addition to in sociology of knowledge.

Garfinkel (1967:36-37) used the concept *common understanding* to describe social scripts, including 'the socially standardised and standardising 'seen but unnoticed',' expected background features of everyday scenes. The member of the society uses background expectations as a scheme of interpretation', and background expectations are 'the attitude of daily life' and are about 'the world known in common'.

Garfinkel's studies of the routine grounds for everyday activities and mapping of background expectations and understandings are instructive examples of how daily activities and communication are pervaded by and dependent on taken for granted common social scripts and codes. People act in trust that these understandings are mutual and that others use them in the same way as themselves, at least to a reasonable extent. This is mainly a tacit premise, but is vital as a basis for building trust. This premise is a quality deeply rooted in some kind of community and in the social scripts. The basis for interpretation of a social situation is not only within the actual setting, but also within a larger cultural community. Mutual understanding might be a subject for negotiations and contracts, and contracts are signed when there is sufficient agreement about terms for future actions. The formal contract presupposes mutual understanding of a wide range of tacit agreements.

According to Garfinkel (1967), trust is compliance to the constitutive order of everyday situations – which means that mutual understanding is confirmed and trust is generated when social interaction or events runs as expected. If it turns out that there are few or no common mutual background understandings, that the actors use different social scripts, trust is undermined, it may disappear and even turn into distrust.

Garfinkel (1963) performed experiments to explore trust processes in daily life. Students were asked to behave unpredictably and break social rules in various ordinary everyday situations among friends, family and strangers. Garfinkel's studies indicated that when the experimenter used another definition of the situation than the object of the study, the situation very soon resulted in anger and distrust. This revealed that trust was challenged by the experimenter's *one-sided change* in the definition of the situation.⁴⁸ The experimenter used an unexpected

⁴⁸ The finding that one-sided change in social definitions undermines trust, was also a finding in my study of trust between bank and customer. The bank customers expressed, anger, disappointment and diminishing trust as a result of one-sided changes made by the bank.

social script, and this use of different social codes broke down the communication. These experiments were mainly conducted among friends or relatives, and it seemed that the threshold for distrust was low in these settings. One could expect that the threshold for breaking trust was higher among friends and relatives, that the trust among them was thicker and more robust and that non-conforming behaviour thus would be accepted more easily. On the other hand, friends and relatives have a long history and much in common, and much is taken for granted.

Non-conforming activity between associates upsets a range of expectations and may therefore represent a greater deviance from the normal and well known than if it happens among strangers, where there probably are narrower expectations. Among strangers you are expected to share social and contextual scripts only to a limited extent, among the familiar you are expected to share personal scripts in addition to social and contextual scripts. Social interactions are situations of mutual confirmation and Garfinkels' experiments indicate that mutuality in everyday interactions is more at stake among people who have close relationships and are well-known to each other than among strangers. Acknowledgement from strangers might not be as critical to your self-esteem as confirmations from those who are close and with whom you frequently communicate.

Mutual understanding means that social definitions and willingness to act in accordance with these definitions *are shared and mutually confirmed*. It is the perceived mutuality that triggers the leap of faith. Trust develops in the intersection between social scripts and individual interpretation and performance. Interpretation is based on individual expectations and social scripts for the particular interaction or social setting. Last, but not least, expectations are not only about what to do – they are also about what *not* to do in a particular social setting (Garfinkel 1967, Goffman 1967).

6.8 Conclusion: mutual understanding - a key to the social construction of trust

To conclude, trust has a social and an individual basis. The social construction of trust is driven by the dynamics between the individual interpretation of the social realities and the continuous construction and reconstruction of the social. The development of trust is a

process of establishing faith in the other and confirming a mutual understanding of the tacit social contract, of fulfilment of the 'promise' in question. Mutual understanding is a premise for the social construction of trust. In this perspective, establishing trust is a dynamic between an individual feeling, the faith, and a social process: establishing mutual understanding of a tacit social contract. In the trust literature, the focus has mainly been on one of the two sides in this dynamic, and not on the interaction between the social and the individual - which is a prerequisite for establishing trust.

Trust is a social process which is constructed when:

- 1) *actors act on the premise that they to a sufficient extent share some basic social assumptions and willingness to act in accordance with them*
- 2) *they confirm this through communication and*
- 3) *develop mutual understanding, which is a condition for making the leap of faith and maintaining trust*
- 4) *mutual understanding is developed as a step by step process and has a social basis with pre-contractual, relational and structural elements*

These are the main elements in *the grounded theory of trust* and the rest of the thesis is based on this theory of trust.

When actors confirm mutual understanding, trust develops. This process is dependent on a social basis which is the foundation for forming expectations and trusting that these will be fulfilled to a reasonable extent. The social basis serves to secure the leap of faith; it is the source of trust and the foundation for creation of mutual understanding.

Analytically, the social foundation for establishing mutual understanding can be divided into *pre-contractual*, *relational* and *structural* bases as the common ground for social action and perception. This categorisation indicates that trust has various social forms and foundations. Culturally shared conceptions and beliefs, social relationships, social processes, and formal structures can be considered as contextual sources of different forms of trust. The trust forms are related to the mechanisms and processes that facilitate mutual understanding and the leap of faith.

The pre-contractual basis is implicit and mainly taken for granted, while the relational basis is familiarity, acquaintance and interaction, and the structural basis is formal structures and positions (Nordnes 1993). These forms of trust are not mutually exclusive, they are

complementary and interact; this is the *social configuration of trust*. The trust forms are analytical constructs and the trust bases are formed through various social processes. Pre-contractual trust is established over time through socialisation, while relational trust develops through interaction and negotiations, whereas structural trust is gradually institutionalised.

Möllering (2005:413) asserts that the important element related to bases for trust is that they represent 'good reasons' for trust. Social bases are not only good reasons to trust, they are necessary conditions for trusting. The social bases are what Alter and Ego have in common, and that makes it possible to develop and confirm mutual understanding. Without anything in common, there is no foundation for developing mutual understanding and trust. The social constructions of trust are processes rooted in the three bases of trust and in the dynamics between them.

Möllering further points out that there is a wealth of typologies and measurement scales for various bases and forms of trust, which do not necessarily tell us anything about trust in general, they just link different kinds of expectations to a form of trust. I agree with Möllering in this, but hold that trust presupposes social foundations. These social foundations are more than typologies; they are social facts (Durkheim 1982). The social bases of trust are of another kind than descriptions and characterisations of psychological states in the process of developing trust, as for instance the trust forms referred to by Lewicki & Bunker (1996), Rousseau et al. (1998) and Doney et al. (1998). These approaches have in common that they focus on psychological processes in trust formation rather than the social bases for trust.

The social bases are springboards for developing mutual understanding; they have distinct social qualities that facilitate development of trust in various ways. The bases involve different ways of reducing social risk and securing trust. In the next chapters, these concepts and the foundations, development and maintenance of the three forms of trust will be explored further in relation to other conceptualisations of trust discussed in the sociological literature.

7. PRE-CONTRACTUAL TRUST

*'Society is a human product.
Society is an objective reality.
Man is a social product.'*⁴⁹

– PETER L. BERGER & THOMAS LUCKMANN

The social landscape is changing. Familiar patterns of action are breaking down and established truths are under threat. Implicit habits, premises, norms, and values are being questioned. Social change is one of the hallmarks of contemporary society. These change processes challenge the social foundations of pre-contractual trust. Trust in organisations, professions, politicians and even in our loved ones cannot be taken for granted, but is constantly questioned and subject to reflection. The fast pace of social, cultural, economic, and political change causes the transformation and reconstruction of the social bases for pre-contractual trust – processes that are perceived as declining trust.

The previous chapter concluded with four points about development of trust. This chapter focuses on the first of those points: *that actors act on the premise that they share sufficient basic social assumptions and a willingness to act in accordance with them.*

Basic social assumptions are the foundation for pre-contractual trust; they are usually tacit and taken for granted. This chapter explores pre-contractual trust as an analytical concept and the social basis for pre-contractual trust. The concept will be examined in relation to similar concepts discussed in sociological theory; an elaboration on the tacit and taken for granted aspects of trust. The chapter concludes with questions for further research on the subject of social change and the erosion of pre-contractual trust.

7.1 Pre-contractual trust – a taken for granted common social basis

Social interaction in everyday life can be challenging, but among the less obvious social challenges to be managed, are the following:

Freedom of action; that the other can act in a totally unpredictable way, independent of my expectations.

⁴⁹ Berger and Luckmann 1991:79

Mutual expectations; that we presuppose having something in common and sharing some social scripts, but we can never be sure about what we actually have in common.

Subjectivity; that each of us, despite of the common social world, is a single system of communication; one can never have full access to the others' perceptions and interpretations.

These elements are basic social challenges related to predictability, expectations, and to the development of mutual understanding. To some extent they are managed by reliance on a tacit and taken for granted basis for social interaction, order and trust. The following chapter discusses the concept of *pre-contractual* as a basis for trust and as a corollary form of trust; pre-contractual trust.

The *pre-contractual* as basis for trust

The concept *pre-contractual* is an analytical tool for exploring the tacit and taken for granted basis for the social production of trust. The term pre-contractual is inspired by Durkheim's *pre-contractual solidarity* which focuses on social context and community: 'the contract is not sufficient by itself, but is only possible because of the regulation of contracts, which is of social origin' (Durkheim 1984:162).

Durkheim's term *collective representation* refers to shared social concepts that appear to be social facts and consists of 'ways of acting, thinking and feeling, external to the individual and endowed with a power of coercion by means of which they control him' (Durkheim 1982:52). In addition there is the *collective conscience* which refers to shared beliefs and moral attitudes that contribute to uniting a society, in particular in pre-modern societies based on mechanical solidarity (Durkheim 1982). Collective representations and conscience constitute the social elements in the pre-contractual basis for trust. The analytical focus of Durkheim is on the social elements of social construction: how *social forces* tie society together, apparently independently of individual actors. Collective representation and collective conscience focus on social forces facilitating social order, while the term pre-contractual refers to the *common social basis and interaction* between the social and the individual; the shared social scripts as the individual's basis for trust. Social scripts are more or less taken for granted, they are basis for role-expectations and social predictability, and actors (including organisations as actors) follow the social scripts to varying degrees.

Perception and interaction are influenced by pre-contractual assumptions. The pre-contractual basis for trust is constructed in a *dynamic between the social and the individual*, as internalisation and individual interpretation of social scripts. This interaction makes social interaction possible; it is a bridge between actors and a basis for prediction of social risk and for bestowing trust. An actor's pre-contractual basis for trust is based on her experiences and interpretation of a common social basis – that is on her internalisation of social realities.

A taken for granted social basis

Despite uncertainty and social risk, actors do not and cannot question every aspect of a situation. It is impossible to regulate everything by contract and to prepare for every potential decision in advance, many premises are implicit and taken for granted. Communication and participation in social life and being a part of social interaction or a larger community of any kind are based on tacit knowledge about what to do and not do. The potential for acting otherwise than according to prescribed norms and rules are numerous and impossible to consider in advance for the other in an interaction. Contracts, transactions, action, and interaction - every aspect of social life and activities - is deeply rooted in a series of habitual and taken for granted assumptions concerning common norms and rules of action (Luhmann 1990, Misztal 1996, Sztompka 1999). Social life and interaction would be extremely complex and uncertain if we could not take everyday social patterns for granted and bestow pre-contractual trust. Möllering (2006:52) refers to this form of trust as routine: 'the routine is performed without questioning its underlying assumptions, without assessing alternatives and without giving justifications every time'. Routines; the familiar, the 'natural attitude' and 'attitudes of daily life' (Garfinkel 1963, Luhmann 1979, Möllering 2006) are the bases for *pre-contractual* trust.

Pre-contractual trust is the taken for granted basis for contracts and social relationships. It is a diffuse trust in others that they will behave in a way that is reasonably predictable and that they are under an obligation of common basic rules for the social situation. The rules are related to a normative context, which the participant takes for granted that other participants share. Actors have to assume they share a common context with others as only the social knowledge they have in common is predictable to others. It is implicitly understood that the actors have some agreement about content and limits of the obligations in question, and furthermore that there is a mutual understanding of the distribution of rights and duties. This means that the actors reciprocally ascribe to each other this mutual understanding; that, for

instance, they agree in the implicit obligation that an agreement should be kept and that they act based on trust in this.

In addition to explicit rules, actors have to rely on a set of implicit general as well as contextual rules and normative regulations. These social codes define the social setting, appropriate behaviour and correct attitudes. Smooth social interaction is based on a taken for granted understanding that others in the same social setting share the social codes and comply with implicit and explicit commitments to a reasonable extent (Garfinkel 1963, Goffman 1967, Luhmann 1979, Giddens 1993, Misztal 1996, Bourdieu 1997, Sztompka 1999, Seligman 2000). When this process takes place without further considerations, as a taken for granted attitude, there is pre-contractual trust: actors have a pre-contractual trust in sharing a common basis for interaction and some level of mutual understanding. Through pre-contractual trust, some predictability is established with regard to how other people will act under otherwise uncertain circumstances and that they will stick to the informal, unwritten norms and rules.

Social action is not totally predictable. On the contrary, there is always a risk that the other will act differently, either deliberately or due to lack of social knowledge, or that a taken for granted mutual understanding does not exist: the level of what is taken for granted will vary individually and contextually, and social scripts are perceived and enacted individually. Everyone has her/his individual internal configuration of the perception and interpretation of social realities. We can never be sure about the extent of shared conceptions of social reality or social definitions, what is taken for granted, and how these will be enacted. But despite the risk that others may not act as foreseen, one normally takes for granted that there is mutual understanding about most everyday activities. These taken for granted, implicit, tacit, mutual, and shared dimensions in everyday actions – social scripts for action and norms in a wide sense – are the basis for pre-contractual trust.

One step in an empirical exploration of development and breakdown of trust is to study the characteristics of the pre-contractual basis for trust in a particular social context. This involves examining what is taken for granted in this particular social setting, which are the main tacit expectations that actors have about each other and about the situation in question, and how the platform for the leap of faith is constructed. A study of the relationship between trust and social change demands a particular focus on the pre-contractual basis.

Pre-contractual trust – pivotal to social change

Culture and social stereotypes are significant elements of the basis for pre-contractual trust. Pre-contractual trust is implicit and built into the culture; it is an element of the social contract and is maintained or impaired through individual actions in everyday life. It is supported by formal structures. Pre-contractual trust is based on a taken for granted premise that: 1) there is a mutual understanding of the implicit social scripts and cultural codes about what to do and not to do in various social contexts and situations, and 2) that the other will stick to and enact these codes and scripts and maintain the assumed world in common. These tacit assumptions are a precondition for cooperation and social activity; they pervade everyday action and are the basis of the apparently blind trust that is prevalent in relationships between strangers as well as acquaintances. Pre-contractual trust is the social basis for action, interaction, and the formation of relations. It is a link between the individual and the society and a precondition for cooperation. It is based on an implicit assumption of having something in common.

Pre-contractual trust rests on an implicit supposition of some level of societal and cultural homogeneity, which makes it possible to take for granted social definitions, routines, and actions. This is a complicated supposition – does a reduction in social homogeneity beyond a certain point make pre-contractual trust impossible? Or is a minimum of pre-contractual trust a prerequisite as foundation for developing a society?

In heterogeneous societies, such as the western late modern societies, there is doubt, questioning and uncertainty related to social scripts and assumptions. This means that the pre-contractual basis for trust is constantly questioned, leading to an increased need for contracts and bureaucracy (Sennett 2006), standards (Brunsson & Jacobsson 1998), and normative clarifications and reflexivity (Giddens 1993, Beck, Giddens & Lash 1994, Möllering 2006).

Social change, migration, and cross cultural cooperation are prevalent processes in late modernity. These processes challenge cultural homogeneity and the cultural basis for pre-contractual trust is therefore affected. The pre-contractual basis for trust is pivotal to understanding how social change affects trust as social change is about transformation in our common basis for pre-contractual trust. New ways of acting or behaving, new values and grounds, and new patterns of action change our taken for granted social scripts. These processes undermine trust, but do not necessarily lead to distrust. On the contrary, social

processes such as dialogue, communication, interaction, and reflection can contribute to redefinition and restoration of a common pre-contractual basis for trust.

Several types of activities in contemporary social life can be regarded as steps in a process of restoration of a common basis for pre-contractual trust. For instance, the global popular culture, including sport and football, communicates a common set of references for its participants and is a potential platform for interaction and further development of common social scripts and relations. The opportunities for world-wide interaction on the Internet through interactive games and establishment of various virtual communities, groups and web sites, such as Facebook and similar virtual groups, can be regarded as platforms for the development of pre-contractual trust. Other examples include the formation of subcultures and professional, ideological, or religious groups, which can be worldwide communities with common pre-contractual basis.

In summary, the social basis for trust is not static, but subject to continuous change and redevelopment. One effect or driver of social change is the reconstruction of the social bases for trust. This perspective will be further discussed throughout the thesis.

7.2 Pre-contractual trust and institutions

Institution-based trust is a widespread notion for non-personal trust. This form of trust is described as system trust (Luhmann 1979, Lane 1998), trust in abstract systems or expert systems (Giddens 1993), and institutional trust (Zucker 1986, Lane & Bachman 1996). The concept of *institution* may have different meanings in various academic disciplines and is used in everyday language. In sociology the term *institution* refers to norms and habits, large organisations, and social formations such as marriage, education and economic structures. The term covers systems of meaning as well as formal and regulative structures.

The term *institutional trust* (Zucker 1986, Lane & Bachman 1996, Lühiste 2006) has some similarities with pre-contractual trust, but the two terms are not entirely congruent. In the following discussion, the differences between these two concepts will be examined with the aim of clarifying the concept of pre-contractual trust, and this will be further elaborated through an exploration of pre-contractual trust in regard to other similar concepts in sociological theory.

The pre-contractual basis for trust has much in common with institutions as ‘reciprocally typified actions habitualised for each in roles’ (Berger & Luckmann 1991:74), and as taken for granted common foundations for construction of meaning. This makes interaction reciprocally predictable, and over time, a sphere of taken for granted action patterns evolve, and the ‘institutional world, then, is experienced as an objective reality’ (ibid: 77). This objective reality is not static; ‘a social world will be in process of construction, containing within it the roots of an expanding institutional order’ (Berger & Luckmann 1991:75). The social world is under construction and appears as an objective reality, it is present and confronts and constrains the actors. At the same time the social world is internalised, we make our configurations of the common social basis for action. This dynamic between the social and the self is a source for relational risk. To manage this risk one has to take for granted and make assumptions, otherwise the social complexity and riskiness would be paralysing and intolerable. Pre-contractual trust helps to reduce social complexity and creates predictability by providing a kind of acceptance that ‘it is not all choices that are socially available and not all choices that are socially feasible’ (Berger & Kellner 1982:110).⁵⁰

Institutionalisation of a pre-contractual basis for trust is a part of the social construction of reality. The social constructions are taken for granted; the social reality and its institutions appear as objective facts independent of actors. According to Berger & Luckmann (1991) this process is a movement from externalising reality to objectification and internalisation of social reality. Social patterns and habits are transferred between generations and people through socialisation. Socialisation is to acquire taken for granted social frames of reference which *forces* one into particular actions and patterns of interpretations. These frames and pre-contractual trust bases are elements in the taken for granted social reality.

Institutions as meaning systems and formal structures

Socialisation is a continuous process of internalisation of the social world, and the individual transforms and adapts the social to her experiences and cognitive universe. The social construction of reality has an individual, psychological element as well as a social element (Berger & Luckmann 1991). The interaction between these elements is an element in the social construction of trust. A study of trust must deal with this compound and dynamic aspect, and

⁵⁰ This is my translation of the following Danish quotation: "det er ikke alle valg der er socialt tilgængelige, og ikke alle der er socialt gennemførlige"

by clarifying the distinction between pre-contractual and institutional trust contribute to the wider understanding of trusting.

Berger & Luckmann (1991) focus on *institutionalisation* as a process of social construction of meaning and rather than the term *institution*. In a discussion of institutional change and globalisation, Campbell (2004:1) uses a definition of institutions which highlights the analytical vagueness and challenging aspects of the term institution:

'Institutions consist of formal and informal rules, monitoring and enforcement mechanisms, and systems of meaning that define the context within which individuals, corporations, labour unions, nation states and other organisations operate and interact with each other.'

This comprehensive definition of the concept hides two different analytical dimensions of the term *institutions* when it comes to development of trust: 1) Systems of meaning and informal rules and 2) formal structures, rules, and monitoring and enforcement mechanisms.

Institutions as systems of meaning develop over time, they are social constructions, taken for granted and maintained by individuals, individually and collectively. Institutions, in this sense, are the social internalised in the individual, and they function as the basis for pre-contractual trust. Institutions as formal structures and systems for monitoring and enforcement are related to power and external forces, which is sanctions outside the individual. Institutions in this sense are general and independent of the individual. Their social function is to facilitate trust independent of individuals.

The two institutional dimensions; the “soft” construction of meaning and the “hard” formal systems are not independent of each other. A pre-contractual basis of meaning is a prerequisite for social interaction. The acceptance and support of institutions as formal systems, for instance, are based on legitimacy as a tacit social contract. The distinction between law and justice is another example. The law is a “hard” formal structure that can be implemented and enforced through formal sanctions, while justice is an issue of meaning and norms and can be related to institutions as “soft” constructions. This is an inherent vagueness in the concept of institutions.

Campbell (2004:36) points to the vagueness by asserting that ‘institutions are multidimensional’, but when it comes to analysis, it is necessary to specify this

multidimensionality a bit further. The “soft” and “hard” dimensions of institutions function differently as bases for trust. The two elements have therefore to be separated into different terms in analyses of trust processes. The term *pre-contractual* trust is related to “soft” institutional dimensions, to the construction of meaning and informal bases for trust. When it comes to formal structures and sanctions as bases for trust, the term *structural trust* will be appropriate. This will be further discussed in chapter 10 which elaborates on structural trust.

7.3 Social order and pre-contractual trust

Luhmann focuses on one main function of trust: reduction of social complexity. The reduction of complexity facilitates social order. With reference to Luhmann, Misztal (1996:95) states ‘that trust should be understood only from the point of view of its function and that this function cannot be reduced or replaced totally of the phenomena’. From this perspective the function of trust is associated with *stable*, *cohesive* and *collaborative* forms of social order. Trust has a different function in each form of social order and the three forms of trust are related to three forms of practice.

In a stable order, trust has the form of *habitus* in Bourdieu’s sense: ‘trust is a strategy for securing the stability of social order’ (Misztal 1996:98). Trust facilitates predictability in everyday life through routines practiced as habit, reputation, and memory. In cohesive order, trust is a kind of *passion* and is based on familiarity and bonds of friendship, common values, and normative integration. It is ‘a device for coping with other people’s authenticity’ and is practiced among family, friends, and in societies where the members share some characteristics (Misztal 1996:99). The third form of order is collaborative. Trust can take the form of *policy* and is practiced through solidarity, toleration, and legitimacy in order to facilitate social cooperation. According to Misztal this trust is ‘a device for coping with the freedom of others’ (ibid: 99), and the two other functions – securing stability and coping with authenticity – are variations of this. Habits, memory, and reputation are practices linked to habitus. Various elements of habitus might be sources of pre-contractual trust in addition to values, norms, and social qualities such as solidarity, toleration, and legitimacy.

Misztal, on the other hand, relates values and norms to trust as passion, as the emotional content of trust as an element in cohesive order. This conceptualisation of trust contributes to a further description of the sources of trust and the possible interaction between various kinds

of practices related to the forms of trust, but the focus on order does not take into consideration the order or lack of order that emerges when trust is threatened and the existing order changes.

Pre-contractual trust in the relationship between bank and customer

The sources and composition of pre-contractual trust will vary, dependent on the social setting. An example from the empirical bank material illustrates the difference in focus between Misztal's conceptualisation of trust and the grounded theory based on conceptualisation of trust processes.

In Norway, it is taken for granted that banks behave reliably and credibly.⁵¹ This is a pre-contractual trust that most bank customers bestow in advance of their first visit to the bank, a trust based on internalised social scripts about banks. The script influences the customer's expectations about how the bank ought to perform, the role of the bank clerks and which norms and values the bank should practice. If the bank's performance fulfils these expectations to a reasonable extent, and this process runs as expected, then the pre-contractual trust between bank and customer is maintained without further reflection. Each interaction with the bank leads to maintenance or adjustment of the script.

Can the relationship between bank and customer be characterised as a stable, cohesive, or collaborative order? A re-examination of the grounded theory study of the trust relationship between customer and bank indicates that this relationship was a stable order with collaborative and slightly cohesive traits.⁵² Customers expected saving banks to behave in accordance with values such as acting in the customers' interest and taking social responsibility. These expectations were included in the customer's pre-contractual basis for trust in the bank. Deregulation changed the pre-contractual basis and the stable order as well as the collaborative and cohesive traits of the relationship. Trust between bank and customer was undermined and had to be re-developed through renegotiation of values, norms, rules, and routines; they had to develop new social scripts and a new pre-contractual basis for the relationship.

⁵¹ At least it was so before the deregulation of Norwegian banks in 1983 (Nordnes 1993).

⁵² Nordnes (1993)

Deregulation transformed the relation between bank and customer from one that was complex with traits of stable, collaborative, and even some cohesive order, to an unstable order where trust had to be based on rational, economic practice. The trust between bank and customers is restored, but the basis for pre-contractual trust in the renegotiated relationship is different.⁵³ The assumption of rational economic behaviour has now been institutionalised as a basic premise and economic self-interest has now emerged as the taken for granted foundation of the new trust relationship between bank and customer.

In summary, different conceptualisations of trust highlight different aspects of trust. The trust forms related to social order is one suggested perspective on how to characterise the trust relations between bank and customer. But because this is not a process perspective, it appears to be somewhat insufficient as an analytical tool for exploring dynamics and change in trust.

7.4 Pre-contractual trust and culture

In sociological theory, the pre-contractual dimensions of social action are scarcely explored in relation to trust, but are discussed as for instance in the concept of habitus (Bourdieu 1997), customs and conventions (Weber 1978), and taken for granted knowledge (Berger & Luckmann 1991).

Culture is another term for tacit, shared social patterns for action. There is no single definition of culture; 'it is a dynamic phenomenon being enacted and created through social interaction (Schein 2004)' and 'shared motives, values, beliefs, identities, interpretations and meanings of significant events that result from common experiences of members of collectives and are transmitted across age generations' (House et. al 2004:57). Culture is normative patterns and a 'collective programming' that varies among groups and nations (Doney et. al 1998); it is the basis for community and for distinguishing between members and outsiders (Hofstede & Hofstede 2005).

To be trusted implies membership of a culture and to have internalised the basic social codes and scripts. Trust and culture are an elusive research topic, although recent studies of trust and culture have explored trust in a cross-cultural perspective (Saunders et al 2010). This thesis

⁵³ The level of trust in banks is the same in 2006 as before deregulation, see table 4 in chapter 13.1.

will not address the topic of trust and culture in relation to their relationship, but as the pre-contractual basis for trust has much in common with culture, this will be briefly discussed.

Culture is one subject in the Polish sociologist P. Sztompka's (1999) work on trust. Poland's transition from a communistic low trust culture to a market economy with a more trusting culture is his empirical case. Sztompka (1999:25) defines trust as 'a bet about future contingent actions of others' and refers to three complementary dimensions of trust – relational, psychological and cultural – where 'the bets of trust actually are located' (Sztompka 1999:60). The location of trust is the basis that serves to secure the bet on trust; or from my perspective, the basis for developing mutual understanding. The psychological dimension is a quality of the trustor rather than a social quality, and influences the trusting capability. Relational dimensions of trust will be discussed in chapter nine.

The cultural dimensions of trust have much in common with the pre-contractual bases for trust; they are 'located among the "social facts", 'the property of social wholes' and 'there are normative obligations to trust and be trustworthy' (Sztompka 1999:66). Trust as a cultural rule comprises the socially shared expectations and normative obligations about trusting and being trustworthy in particular roles and situations (Sztompka 1999). The focus of Sztompka is on rules for trusting and trustworthiness, which are deeply rooted in the normative system of a culture, rules that will vary among societies. These and the assumptions about shared concepts, norms, and cultural scripts for developing trust are elements that, according to Sztompka, are premises for a culture of trust and trust as a societal quality. I define these elements as pre-contractual elements in the basis of trust.

Other approaches to trust cultures are the analysis of Southern Italy as a region with a culture of distrust and the mafia with a culture of strong internal trust and loyalty (Gambetta 1990b) (although it can be questioned whether this is fear, rather than trust). Another example is in the analysis of the differences between Russian and Anglo-Western trust cultures (Ayos 2004). These approaches analyse trust from a cultural rule approach and focus on trust as a cultural quality and the normative obligations of being trustworthy linked to specific roles. Rules for trusting and trustworthiness are one of many elements in the pre-contractual basis for trust; which pre-contractual elements are of analytical relevance in a study of pre-contractual trust, depends on the context being studied. Garfinkel's (1963) experiments with breaking trust in daily life (see chapter 6.6 and 6.7) provides an exploration of pre-contractual

trust at a micro level and demonstrates how disturbance of this form of trust makes it a subject of reflection and it thus becomes visible.

Summing up, the defining quality of pre-contractual trust is shared culturally-based assumptions. These assumptions, expectations, and/or predictions are usually taken for granted and acquired through socialisation. They are internalised and become individual interpretations of social concepts and hence a basis for pre-contractual trust.

7.5 Pre-contractual trust and change – a state challenged by events

If social assumptions are acceptably fulfilled, trust is maintained or may increase; there is a state of trust. A *state* is different from an *event*; they are mutually excluding categories (Luhmann 1979:11). A *state* is a lasting condition, a status quo, the on-going, ordinary, familiar situation as distinct from an *event* which is an episode, an occasion and something that happens as a disturbance or change of state. Social change can be an effect of particular events and events may strengthen, weaken, violate or maintain a state of trust; this depends on the actual events and the particular context.

Distressing events and disturbance of pre-contractual trust

A bus ride can be an example of both states and events. Riding a bus in London is an example of how a particular event can affect the state of trust, in this case particular pre-contractual trust. The relationship between people waiting for a bus can be described as seriality (Sartre 1976), they do not relate to each other but to the material object, the bus, and the social practices of public transportation. There is no relationship between the passengers, but they have tacit mutual understanding of the common rules for this context. They have a pre-contractual trust in that the others will follow the common rules for bus queuing as well as general social norms – they expect that social practice will unfold as usual. The passengers in the London bus queue are in a state of pre-contractual trust in their co-passengers, and for this reason they do normally not consider other potential outcomes such as queue jumping, or being killed in the queue or on the bus.

However, a sudden event can change this state of trust, such as the bus-bombing in London on 7th July 2005. After the bombing, passengers waiting for a bus in London kept an eye on their

co-passengers and their rucksacks. The bombing reduced the pre-contractual trust in the safety of London buses in general and the trust in the co-passengers. Their harmlessness was something that could no longer be taken for granted.

A lonely young woman at the stop, waiting for the late night bus is another example of bus queuing and trust consideration. More or less independently of the location of the stop, most young women will perceive this as a risky situation, and the state of trust will be low, but for reasons other than fear of bombing. If, for instance, three unkempt and noisy young men with knife scars in their faces approached the stop, most young women will actively think about whether these men are potentially harmful. Young women are unlikely to take for granted that the men will follow common bus queue norms; neither does she have pre-contractual trust in their good intentions in general. If a harmful event occurs, her low trust (or distrust) of this category of men is enhanced, on the other hand, if nothing happens, (which is most probable) the minimum state of trust is maintained. Bus queuing is normally based on a state of pre-contractual trust, but this trust can be undermined both by unexpected and expected (feared) events.

There is a long list of examples of sudden events such as accidents, natural disasters, terror, deceptive actions and unexpected violence which undermine the state of pre-contractual trust in everyday life. How deep and lasting the effects of these events have on pre-contractual trust, needs further empirical investigation.

Open spaces and pre-contractual trust

Situations of social change and transformation can be characterised by little or no mutual understanding. This occurs in situations where social processes do not unfold as expected and there is a kind of social 'inertia'. At the same time this situation generates new social patterns. These possibilities are 'open spaces' and 'interstices of systems', or 'system limits' according to Seligman (2000). There is always a contingency and possibility of unexpected events in social life; open spaces and interstices of systems are arenas for developing new social patterns.

Open spaces are situations where 'for one reason or another systemically defined role expectations are no longer viable' (Seligman 2000:25). In these situations, pre-contractual

trust is questioned and may be undermined, but this does not mean that it disappears or is transformed to distrust. On the contrary, *open spaces* allow for re-building of mutual understanding on a new basis, a reconstruction and transformation of the pre-contractual basis for trust. Situations with little or no trust are not only a possibility for distrust, they represent a potential for change and new social dynamics. The critical issue is the direction of change, and whether this is constructive or destructive.

According to Seligman (2000:25) trust comes into being in certain events, in the *open spaces*; ‘trust is something that enters into social relations when there is role negotiability, in what may be termed “open spaces” of roles and role expectations.’ But trust can be a state, such as the taken for granted pre-contractual trust as a basis for social interaction, as well as an event. Trust is both an input and the result of social processes and some form of trust is an inherent element in voluntary social relations. This means that trust is based on symmetrical power relations (no force). A social relationship is dependent on trust, and this can be inverted; a voluntary social relation is an indication of trust. Open spaces are situations where expectations are unfulfilled, where mutual understanding is low or absent and trust is questioned, broken or re-constructed on a new basis. In one sense, this is a ‘void’ situation which has to be re-constructed with new content and a new pre-contractual basis. It is a situation where trust is activated – trust comes into being as Seligman asserts. Open spaces are a departure from the existing state; they are a kind of event with possibilities for innovation and development of new patterns.

7.6 Pre-contractual trust – a dynamic social quality

Pre-contractual trust is a normal state in everyday life, an input and basic social platform for interaction and relations. It is based on mutual understanding of taken for granted foundations in social life. What does this actually mean? Is it a self-contradiction? If pre-contractual trust is taken for granted, what is the analytical use of the concept?

Social life is not transparent, stable, or static, neither is the state of trust. As pointed out previously, A never knows for sure whether B shares her assumptions, intends to act in accordance with them, or whether totally unforeseen events may occur. Trust presupposes consideration of possibilities and expectations (Luhmann 1993), but pre-contractual trust mainly is taken for granted without any further consideration.

In a state of trust actors presuppose mutual understanding, but in practice there are many events that may alter a state of trust and raise questions about mutual understanding and pre-contractual assumptions. Consideration of risk, lack of mutual understanding, disconnected expectations, indifference and inability to fulfil the supposed mutual understanding are all situations that may infringe pre-contractual trust. Events such as unexpected changes in organisational practices, in personal relations, in habits or routines are other events where role definitions and pre-contractual bases for trust and expectations are changed. The state of trust is disturbed. When actors assume they have mutual understanding, but their actions demonstrate that they do not use the same social scripts, trust is undermined and has to be re-constructed.

Reconstruction of pre-contractual trust

The following example of disturbed pre-contractual trust in everyday life may illustrate the dynamics of undermining a state of trust due to particular events and lack of mutual understanding.

One day my almost ten year old daughter and her friend visited me at the office. In the afternoon I had to decide whether they should be given permission to go by bus part of the way and then walk the rest of way. The alternative would be walking home together with one of the parents. I took for granted that my daughter and I had a mutual understanding about how and where to exit the bus. My considerations were therefore about the traffic and the girls being on their own, walking from the bus stop to our house. In agreement with the other mother, we decided to trust the girls to cope with this situation and allow them to go by bus. This was a decision based on a pre-contractual trust in their ability to manage a bus ride and a relational trust in their general ability to manage being on their own.

It turned out that the girls did not cope with riding the bus on their own. They expected the bus to stop automatically at every stop, they did not know how to stop the bus, and in addition, they did not know where to get off the bus. The girls had to ride until the bus stopped, which was almost in the city centre, and from there they had to walk back home (a route they did not know very well). The girls and I did not have the mutual understanding I assumed and partly took for granted. My implicit expectations of them were broken and my pre-contractual trust in their competencies was disturbed. This disturbance activated a re-

consideration of my basis for pre-contractual trust, and the episode taught me that little can be taken for granted when it comes to children's practical knowledge. On the other hand, my relational trust in the girls was strengthened, they coped with this unexpected situation better than I would have assumed.

A conceptualisation of the taken for granted elements in the trust process, that is the pre-contractual basis, facilitates a more nuanced understanding of the dynamic of trust and is an analytical tool for exploring trust as a state, the influence of events, and the relationship between trust and social change. Even though something is taken for granted, it does not mean that it is static and not subject to change. It can be difficult to become aware of these changes because assumptions are taken for granted, and what we experience is that something unexpected occurs which undermines the state of trust. We experience the event and its consequences as diminishing trust – the process of changes in the pre-contractual basis are normally invisible. When the pre-contractual basis for trust is made explicit through reflexivity, one can be aware of which changes in the basis for pre-contractual trust that has the undermining effects. Working with the changes are the first steps towards restoration of trust by developing new bases for trust, which over time will be taken for granted and become a pre-contractual basis for trust.

7.7 Conclusion: reconstruction of pre-contractual trust – the well of trust?

It is analytically challenging to demonstrate diminishing trust, its causes and how it can be restored. One approach is the grounded theory of trust which conceptualises trust as a process of social construction; as a leap of faith based on construction of mutual understanding supported by pre-contractual, relational and structural social bases. This conceptualisation is an analytical tool for exploring trust and social change. The splitting up of the social construction of trust into three interrelated forms and corresponding social bases is one step in the process of achieving greater transparency in the process of trust construction, where each element in the trust process can then be further elaborated.

Pre-contractual trust is a tacit, basic 'social hypothesis' which is continually tested through social action. An exploration of this form of trust demands that the taken for granted assumptions that is the basis for mutual understanding have to be made explicit. Through this

process, foundations for declining trust and lack of mutual understanding will be made explicit so that disagreements and misconceptions can be discussed and clarified. Overt dialogue about assumptions is the first step towards the development of new pre-contractual bases for mutual understanding. Through processes such as interaction, reflection and dialog reconstruction of mutual understanding is possible. Gradually, a new basis for mutual understanding will be taken for granted and pre-contractual trust restored – until the next event occurs that undermines trust. Social interaction influences pre-contractual trust – either by disturbing it, re-constructing it, or maintaining the taken for granted elements.

The *trust paradox* mentioned ahead in the thesis, was based on the hypothesis that trust is not disappearing, but that *the wells of trust and the process of reconstruction of trust are analytically hidden* because the existing analytical tools for examining trust do not focus on these processes. The thesis therefore argues that conceptualisation of trust as a process of developing mutual understanding, and the discovery and exploration of the pre-contractual basis for trust, is pivotal to understanding the dynamics of the social construction of trust. This perspective is an analytical tool to explore the tacit and taken for granted foundations of trust, how social changes affect these elements and how development of trust is facilitated by the interaction of different social bases. *The social* – the elements we share and have in common – and the continuous *process of reconstruction of mutual understanding are the wells of trust*. But to see and understand these processes, a new analytical tool is required and that is the contribution of this thesis.

The next chapter digs more deeply into the relationship between pre-contractual trust and familiarity. This is a further exploration of the characteristics of pre-contractual trust; contrasting the concept with relevant sociological concepts and contributing to the expansion of knowledge about trust and social change.

8. PRE-CONTRACTUAL TRUST AND SOCIAL CHANGE

*'Familiarity is an unavoidable fact of life;
trust is a solution for specific problems of risk.'*⁵⁴

– NIKLAS LUHMANN

As pointed out in previous chapters, trust can be categorised into many different forms related to diverse social qualities. The form of cognition-, affect- and behaviour-based trust (Lewis and Weigert 1985, Lewicki and Bunker 1996) characterise different individual processes for trust development. Misztal (1996) analyses the function of trust in various forms of social order, and describes trust as a type of habitus, passion or policy. The social foundation for trust is in turn basis for psychological, relational and cultural dimensions of trust (Sztompka 1999). According to Zucker (1986:60) there are process, characteristic and institutional modes of trust production, based on exchange, person or formal social structures respectively. This thesis discusses pre-contractual, relational and structural bases for and types of trust, and Luhmann (1979) differentiates between trust, familiarity and confidence as trust forms and various modes for self-assurance in risk consideration.

The different types of trust are somewhat difficult to compare, as different dimensions and qualities of trust are based on diverse scientific perspectives. If trust forms are discussed in relation to each other, as complementary rather than competing perspectives, this can draw attention to new dimensions of trust and enable a multi-faceted and multi-disciplinary perspective on trust.

As previously mentioned, the work in the thesis is based on an empirical grounded conceptualisation of trust which also is theoretically inspired by works of Luhmann and Zucker. The latter's contribution will be further elaborated upon in chapter 9 about relational trust. In this chapter, the focus is on Luhmann's conceptualisation of trust, and in particular the concepts of *familiarity* and *confidence*. An exploration of these forms of trust in relation to pre-contractual trust and development of mutual understanding can expand our insight into the relationship between trust and social change.

⁵⁴ Luhmann 1990:95

8.1 Familiarity – an individual and structural frame of reference

On the individual level, trust is about certainty and belief in one's own expectations. According to Luhmann (1990:99) *familiarity*, *confidence* and *trust* 'are different modes of asserting expectations - different types, as it were, of self-assurance'. The different trust types are related to the individual basis for trust, and the relationship between them is complicated and subject to change. Luhmann desists from elaborating on an operational theory of familiarity, rather the focus is on the distinction between trust and confidence (ibid), a topic that will be further discussed in a later section of this chapter. In everyday language the terms trust, confidence, and familiarity seem to be used interchangeably to describe some form of reliance. Even among scholars there is a widespread confusion between the three trust forms and the sociological attempts to distinguish between them (Seligman 2000).

Further analytical exploration of the concepts is therefore useful to widen our understanding of trust, and by using comparison, clarify concepts. A discussion of familiarity and confidence in relation to pre-contractual and structural trust will enable greater clarification of these concepts.⁵⁵

Familiarity and resemblance

Luhmann (1990) distinguishes between familiarity, confidence, and trust as different ways of coping with different kinds of risk and unpredictability. The unfamiliar and unknown, asymmetric relations, dependency and the free will of others causes that almost everything can be subject to change. Expectations are strategies to create predictability by trusting a perceived risk is suspended.

First, a distinction needs to be drawn between familiarity and trust. From Luhmann's perspective, trust has a function: 'trust is a solution for specific problems of risk' (Luhmann 1990:95). Trust is something an actor chooses on the basis of familiarity and considerations of risk and danger (Luhmann (1979, 1990).

Familiarity and confidence are not solutions to the problems of risk but relate to other aspects of life, according to Luhmann (1990:95) 'familiarity is an unavoidable fact of life'. Familiarity is about knowledge of the context in which one lives; people are familiar with

⁵⁵ The concept *structural trust* will be elaborated on in chapter 10.

each other and their life-world which relates to ontological security (Giddens 1990, Misztal 1996). The past, experiences, and habits are basis for familiarity, one is socialised into familiarity and it affects how risk, the unknown/unfamiliar, and the future are faced. Familiarity can be taken for granted; it is a frame of reference and an element in the basis for pre-contractual trust in the expectation that things will remain as usual.

Humans never entirely leave the familiar; it is the fixed place from which an actor orientates and moves towards the unfamiliar. The familiar is the backdrop for investigating the unfamiliar; 'we know in a familiar way about the unfamiliar' (Luhmann 1990:95) and it is a gate and bridge into the unknown, 'familiarity breeds unfamiliarity. It remains a horizon that moves as we move' (Luhmann 1990:95). In the human cognition process, we have to relate the unknown to something familiar to be able to comprehend the new. Change is therefore a dynamic interaction between the familiar and the unfamiliar.

According to Misztal (1996) familiarity is related to habits, close relations, and everyday classifications of our surroundings, and the concept of *habit* seems to overlap with familiarity as an approach to describe social prediction as the basis for trust. Giddens (1990) and Sztompka (1999) do not focus on familiarity as a particular aspect of trust, while Seligman (1997) distinguishes between trust, confidence, and familiarity. Familiarity is an element in Seligman's perspective on trust, and this will be further elaborated on below.

Confidence can be seen as a reliance on oneself and one's perceptions and expectations. I hold that trust can be regarded as a way *to bridge and cope with difference, while familiarity is based on resemblance*. Familiarity is 'the establishment of that generic human bond rooted not in difference, but in sameness or identity' (Seligman 2000:69).

According to Seligman, most social activities are managed through shared role expectations and the mutual confidence in that they are shared, which I hold to be a pre-contractual trust based on presumed and taken for granted mutual understanding. If this is insufficient, actors presuppose a familiarity to provide the necessary confidence for social interaction (Seligman 2000). Trust is at stake in exceptional situations, such as those of changing role expectations, according to Seligman (2000:70):

'Trust approaches the agency of the other in a different manner and does not assume its circumscription by role fulfilment or by ideas of shared community, that is, of familiarity, or what in Taylors's terms would be a shared basis for strong evaluations.'

This perspective has some similarities with Luhmann's assumption that trust is relevant in situations that which actors employ consideration and a choice of action.

According to Seligman, trust is something that is activated in *open spaces*, in situations of social change and where the familiar is not a relevant as basis for trust. These situations resemble situations of risk, and hence require activation of trust (Luhmann 1979, 1993). From my perspective these are situations where pre-contractual trust is disturbed, and has to be restored through reflexive processes that incorporate the new and gradually transform it to something familiar. Open spaces are the social interstices that represent social risk and opportunities for development of new social pattern, as pointed out in the previous chapter.

Pre-contractual trust has a lot in common with familiarity, but it is not totally the same, Familiarity functions as a basis for pre-contractual trust. The pre-contractual is the basis for mutual understanding; it is a social backdrop and contextual social script that stretches beyond the familiar. It is a familiar basis for trust in unfamiliar settings and a global frame of reference. It is more than a human bond; the pre-contractual basis for trust includes material structures and cultural references in a global world, such as the Internet, mega structures (for example airports, hotels and sport-venues), and pop culture such as music, movies and stories (for instance such as Harry Potter). These are global elements of the pre-contractual basis for trust; a social basis that functions as a pre-contractual platform and entrance for new social spaces.

Two forms of familiarity and the trust paradox

I hold that the relationship between trust and familiarity is one key to understanding how trust and social change are connected. Familiarity is both different from trust and the basis for it (Seligman 2000). Familiarity consists of shared *strong evaluations* which are based on values and qualitative categories acquired from ones social milieu (Seligman with reference to Taylor 2000:69). The notion *strong* evaluation refers here to the existence of a common normative basis for evaluations and the identity of the actor is bound up with these evaluations – it is the identity element that makes it strong. Strong evaluations go beyond

utilitarian calculations and include shared moral norms, and they create a shared common identity and community (Seligman 2000).

Based on a rather complex argument, Seligman (ibid: 93) asserts that familiarity ‘exists in two forms: 1) as itself a basis for social solidarity and 2) as no more than a mechanism, rooted in the structural composition of the division of labour,’ Seligman focuses on the second form of familiarity, which includes shared strong evaluations as well as a trust in the other’s free will. This is trust in elements that cannot be taken for granted that is shared by the other and trust in an unknown and (structurally) unknowable other. To trust in the other’s free will arises from sharing a common cultural basis for interaction. Seligman’s second form of familiarity is a modern phenomenon that functions as a regulatory mechanism which lubricates general exchange.

As I read Seligman, the familiarity described in the first category is about *proximity in relations*, which is the *pre-contractual basis for relational trust*. The familiarity described in second category is a way of coping with the larger society and leads to the *development of generalised trust*, which is the *pre-contractual basis for structural trust*. The three forms of trust; pre-contractual, relational and structural open up a more nuanced analysis of the social construction of trust and direct focus onto the social elements and social basis that are at stake in trusting.

One of the conclusions Seligman draws from the discussion of the two types of familiarity is of particular interest here; namely that the increasing unconditionality of late modernity leads to an increasing need to rely on trust while at the same time as the conditions for this reliance, that is familiarity in the second sense, are diminishing (Seligman 2000:97). This conclusion resembles the trust paradox I have observed and described ahead – about the *drying wells and insufficient pumps* of trust – a paradox which reminds us that *social change increases complexity and risk, which in turn increases the demand for trust, but the conditions for development of trust are undermined by social change*. Familiarity, as ‘the known’ in common, is a part of the pre-contractual basis for trust. The familiar social basis is affected by change and this undermines the conditions for development of mutual understanding – the effect is diminishing trust.

But if social change affects only some elements of the familiar basis – what influence does this have on trust? Will trust still be undermined? Will it be placed on alternative social bases? Or will a new familiarity be developed? These questions are about the social configuration of trust, and will need to be further investigated both theoretically, such as in the rest of this thesis, and empirically through in depth studies of on-going trust processes in particular social contexts.

To conclude this discussion of familiarity and summarise my position: familiarity as a quality is about known and shared evaluations; it is about resemblance and the common basis for social life. Seligman suggests two forms of familiarity and I agree with his perspective, but will shift the distinction somewhat and suggest drawing a distinction between the two kinds of familiarity which are elements in the basis for pre-contractual trust:

1) *Familiarity as a quality at the individual level based on proximity, which can be considered as the pristine form of familiarity and*

2) *Familiarity as a structural quality of society based on being situated in a common social context, a context based familiarity.*

Both forms of familiarity are elements of pre-contractual trust to the extent that the familiarity is taken for granted. For analytical purposes, the two forms are called *individual* and *contextual* familiarity. Social changes may affect both kinds of familiarity and/or the relationship between them. This distinction is useful when discussed in relation to modernisation and change.

8.2 Familiarity – a pre-contractual key to social change and trust

While trust can be regarded as a device to bridge difference, familiarity is based on resemblance. Change is an event of difference; it is about moving from the familiar to the unfamiliar, and about making the unknown familiar. *These processes require trust to suspend the perceived risk related to the unfamiliar and this is why the need for trust is increasing in situations of social change.*

Everyday life in the late modern age is characterised by unpredictability caused by continuous changes, increasing role segmentation, role negotiation, and frequent encounters with strangers and/or rather unfamiliar situations. This necessitates trust as a way of bridging the

unknown and the familiar. At the same time, the range of familiarity seems to be crumbling. Or is it only changing? The position here is that there is a condition of crumbling familiarity at the individual level, while contextually based familiarity is gaining ground. Changes and unpredictability are experienced at the individual level, and the transformations and the unfamiliarity we face as individuals creates feelings and experiences of crumbling familiarity. Our basis for pre-contractual trust appears to diminish. We need trust as a strategy to handle the unfamiliar and unpredictable and we need something familiar as a kind of fixed point to bestow trust in strangers and in new situations. We therefore have to find an element of familiarity in a situation; the challenge is having sufficient familiarity to attain predictability and bestow trust.

To sum up; the position is that late modernity is characterised by the following dynamics: Changes contribute to crumbling familiarity at the *individual* level, but at the same time, this is met by expanding *contextual based* familiarity. There is an increased need for trust, in particular an increased need for trust between strangers – that is generalised trust. Generalised trust is dependent on a basis of context-based familiarity as one way to create predictability. Structures of all kinds facilitate this predictability, as do culture, in particular popular culture expressed in music, movies, and sport. These cultural expressions are a kind of global narrative creating familiarity. Cultural and economic globalisation can be considered as global *narratives* and as huge processes that create worldwide structural based familiarity. Narratives are not late modern phenomena, but their content and message are historical. In pre-modern times, religion was one of the great meta-narratives that contributed to establishment of a common basis of pre-contractual trust. Secularisation, disenchantment, and the reliance on science – the ideas of rationalisation – have formative ideological power in the modernity and are competing with the decline of religion as one of several meta-narratives in the late modern era (Beck 1993, Touraine 1995).

The belief in market and competition are modern meta-narratives and the pre-contractual assumption that free competition will solve ‘all’ problems, is a guiding force in the capitalistic economy. The assumed benefits of competition are taken for granted, and we can for instance observe it trickle down to the public sector as new public management (Busch et al. 2001).

The consumer culture is one meta-narrative with globally recognisable elements. For instance, everywhere you go, an airport is a familiar structure, some of the food, shops, music, and

credit cards are familiar as well as football teams and heroes, and popular books such as Harry Potter. The European Union, World Trade Organisation and similar international meta-organisations create global familiarity by imposing laws, principles, rules, and an economic framework of interpretation on national states. Globalisation diminishes some differences and creates some resemblance (at least on the surface). Late modern mega cities resemble each other, young people worldwide share cultural expressions such as popular music, video games, films, and television shows. Modernisation has tremendously increased this kind of structural meta-familiarity.

On the other hand at a more individual level, people are experiencing alienation and crumbling familiarity; less can be taken for granted and more must be clarified through reflexion and dialogue. The basis for pre-contractual trust appears to be under continuous reconstruction. At the individual level, widespread global narratives appear as continuous encounters between the familiar and unfamiliar and this is why the intensified expansion of structural familiarity contributes to crumbling familiarity at the individual level. These are the kinds of processes Luhmann describes when he asserts that trust contributes to increased complexity (Luhmann 1979) and that 'familiarity breeds unfamiliarity' (Luhmann 1990:95).

Sztompka (1999) applies familiarity to describe one of five elements that contribute to building a trust culture. Previously in this chapter, the term *narrative* was referred to as a strategy to develop trust in the unfamiliar and in future events. Is the contemporary focus on narratives a means to establishing familiarity between to-day and the future, and between the known and the unknown? Have narratives become a new basis for trust, and are global narratives a strategy to reduce risk and insecurity in the encounter with the stranger? Who, then, are the storytellers, and which narratives are becoming familiar in a global scale? In what and in whom do we place our trust? These questions are open for further research.

The future is open, and to create a feeling of familiarity necessitates generalisation from the known to reduce risk. Familiarity is under pressure in today's society because of continuous change and development processes. We are constantly confronted with the unfamiliar and established knowledge, and truths are under pressure at the micro and macro level. According to Luhmann (1979, 1990) the boundaries between familiarity and confidence are being obliterated and the scope of familiarity is crumbling, while the range of confidence expands. However, this can be contradicted by the statement that both familiarity *and* confidence are

expanding. As discussed above, the new narratives function as a strategy for developing familiarity on a global scale, at the same time as increased knowledge facilitates a wider scope of familiarity, providing better social capacity for exploring the new and unfamiliar.

Therefore, in spite of events of crumbling familiarity at individual level, it can be concluded that the scope of familiarity is both expanding and changing. The new global narratives pervading consumer-, entertainment-, and leisure cultures grow at the expense of religion and science as universal narratives in the traditional and modern epochs. Parallel with the process of expanding familiarity, there is an expanding confidence, a quality that has several similarities with structural trust.

8.3 Confidence – a question of power and fiduciary obligations

In everyday language, trust and confidence are often used interchangeably (also in scientific literature). Can linguistic definitions and the roots of words contribute to better clarification of the relationship between these different words describing various forms of trust?⁵⁶

Trust is described as ‘firm belief in the integrity, ability, effectiveness, or genuineness of someone or something’. It is also ‘assured reliance on the character, ability, strength, or truth of someone or something and one in which confidence is placed’. Confidence, credence, faith, and stock are listed as synonyms of trust. *Confidence* is described as ‘a feeling or consciousness of one's powers or of reliance on one's circumstances’ and ‘faith or belief that one will act in a right, proper, or effective way’. It is also ‘the quality or state of being certain’.

Linguistically, it appears that trust and confidence can be used interchangeably, but having confidence in something seems to indicate some sort of dependence and a more *firm* belief than trusting. This observation can be supported by an additional description, in Merriam-Webster, of trust as ‘dependence on something future or contingent: hope’. Definitions of *hope*, tell us that trust is suggested as the archaic version of hope. This is not surprising, according to Luhmann (1990), trust as phenomenon comes into being with modernity and the

⁵⁶ All word definitions referred to in this section is from Merriam-Webster OnLine, if not other references are mentioned. (<http://www.m-w.com/cgi-bin/dictionary?book=Dictionary&va=confidence+>)

possibility to choose action. In pre-modern times, one could only hope or have confidence. Further on, the dictionary suggests that hope can also be ‘to expect with confidence: trust.’

To conclude this section with linguistic definitions; there seems to be an almost circular relation between trust and hope. Trust in situations with high risk resembles hope, and a confident hope resembles trust.⁵⁷ It appears that the linguistic definitions do not lead to much further clarification of the distinct features of trust or the relationship between trust and confidence.

According to Luhmann (1990:98) the distinction between trust and confidence is a matter of perception and attribution and is ‘a highly complex research issue’. The distinction is related to differences between risk and danger. Danger is an unavoidable risk that you might not even consider, but have to entrust yourself to. Risk is a negative possibility, a possible loss, damage, or danger that you consider and reflect upon and can choose to avoid, that is not to trust. This distinction is contestable and the subjective element of perception and attribution make the distinction even more difficult to handle analytically. A discussion of confidence in relation to pre-contractual trust and social change will contribute to some analytical clarification.

Confidence – a feeling of basic and pre-contractual trust

The relationship between trust and confidence is a topic in several studies of trust. In a discussion of the distinction, Misztal (1996:16) states that ‘the main difference between trust and confidence is connected with the degree of certainty that we attach to our expectations’. Misztal does not discuss the relationship between trust and confidence in depth, but states in line with Luhmann that trust is about choosing between alternatives, while confidence is a more habitual expectation. According to Sztompka (1999:192, n.7) Seligman treats the distinction between trust and confidence as a question of ‘firmness of expectations on which action (or abstaining from action) is based’. We have confidence in our expectations that certain actions unfold as usual and that roles will be performed as always. This is a difference not of kind, but only of degree. Degree of certainty in expectations is an individual quality; it

⁵⁷ In a previous chapter suspension of risk was discussed as a key element of making the leap of faith – that is to trust. To hope is a process not very different from the suspension of risk.

is highly difficult to decide and is therefore rather unsatisfactory as analytical distinction between trust and confidence.

Even though Seligman (2000) provides a comprehensive discussion of the difference between confidence and trust, it is somewhat difficult to get a distinct understanding of his perspective on confidence; except that he seems to consider it as different from trust, as reliance on abstract systems, and as confidence in fulfilment of role expectations (ibid: 25). Seligman relates the distinction to his conceptualisation of trust. Trust is a quality that only comes to exist in negotiation of roles, while confidence is the prevailing social quality, a state of normality. This is a perspective on confidence similar to Luhmann who states that confidence is about everyday life and the familiar; 'the normal case is that of confidence' (Luhmann 1990:97).

We have confidence in that everyday life will progress as usual and that others will behave in a predictable way, though there is always a possibility that something unexpected will happen. Deceit as well as terrorism and sudden natural disasters can alter confidence as a basic trust. For instance, the sudden and unexpected event that occurred with the Tsunami disaster in Asia, a natural catastrophe in December 2004 that demolished the physical as well as the social world for those it hit. Media reported from the area that the survivors were paralysed. Many of them had lost everything, including probably their confidence in the natural order. The alternative to this confidence is not mistrust but existential angst or dread. Another term for this confidence is pre-contractual trust.

According to Merriam-Webster Dictionary OnLine, one of the definitions of confidence is 'a feeling or consciousness of one's powers or of reliance on one's circumstances'.⁵⁸ The element of reliance is emphasised by Luhmann; an actor has to have confidence in the natural order and presuppose that the familiar world will continue to exist. Even though this position is not central to his further discussion of confidence, Seligman (2000:17) consider confidence as a kind of trust, a basic trust, related to psychological orientation acquired through early socialisation.

As noted previously, Giddens (1993) discusses basic trust in relation to ontological security: 'ontological security has to do with "being-in-the-world". But it is an emotional, rather than a

⁵⁸ <http://www.merriam-webster.com/dictionary/confidence>

cognitive, phenomenon, and is rooted in the unconscious (ibid: 92). This form of trust is trust as an individual quality and a psychological state. It develops as an experience of mutuality in the early socialisation process when a child experiences that a caretaker returns and that absence of the caretaker ‘does not represent withdrawal of love’ (Giddens 1993: 97). In order to build trust in others and to *trust*, to be trusting as a way of bridging distance in time and space, this experience is essential. Basic trust is reinforced by everyday habits and routines, which are influential elements in ontological security. Giddens concludes that basic trust, ontological security, and a feeling of continuity constitute a basic human quality, ‘if basic trust is not developed or its inherent ambivalence not contained, the outcome is persistent existential anxiety’ (1993:100). Basic trust is an emotion and an individual state, dependent on everyday routines and predictability. Confidence as an expression of basic trust and as a psychological phenomenon will not be further discussed here as the focus of the thesis is social rather than psychological processes.

A close reading of Luhmann’s distinction between risk and danger might hint at another perspective: confidence as a lack of power. The quotation above from the Merriam-Webster Dictionary refers to this, ‘if you do not consider alternatives [...], you are in a situation of confidence’ (Luhmann 1990:97). The lack of consideration might be the result of to take for granted or being powerless. If one lacks the ability or power to choose between alternatives, it is not necessary to consider them (although that does not stop people worrying). To make the analytical difference between trust and confidence more explicit, the next section introduces power as an approach to distinguish between the two.

8.4 Confidence and the power to choose exit

Trust is based on the consideration of risk and the possibility to choose between trusting and not trusting. As Luhmann states (1990:97);

‘Trust, on the other hand, requires a previous engagement on your part .It presupposes a situation of risk. Risks, however, emerge only as a component of decision and action. If you refrain from action you run no risk’.

A decision of not to act, can also be an act in this perspective, ‘it is a purely internal calculation of external conditions which creates risks’ (Luhmann 1990:100). As pointed out, the consideration of risk or danger is a question of individual perception. But if the external

conditions are characterised by asymmetrical power relations, the powerless have no choice. They have to rely on the circumstances, hope for the best and feel more or less confident.

Trust is about the power to choose action. Analytically, one chooses to act or refrain from acting after implicit or explicit consideration of the possibilities and risks. Some of these considerations are done through the social structure, through habits, social scripts, experiences and other elements in the basis of pre-contractual trust.⁵⁹ Confidence is about being *unable* to choose whether to trust or not; in general, this is a state of dependency or taken for granted. You have to feel confidence and rely on the good intentions of the other, whether or not you believe in them, if you have no other choice. Trust, not confidence, depends on one's previous experience, 'the point is whether or not the possibility of disappointment depends on your own previous behaviour' (Luhmann 1990:98).

On the other hand, there can be situations where previous behaviour has no influence on the possibility of disappointment; but you can still choose whether to trust or not, this is particularly so when it comes to structural trust (see chapter 10). A flight is an example of the complex relationship between the power to choose exit, trust, and confidence.⁶⁰ When planning a journey, the first consideration is the risk between various modes of transport. When one decides to trust going by plane, there is an element of structural trust in the technology. The next decision is the airline. This choice is based on trust; relational trust based on former experiences with the company, and pre-contractual trust based on the company's general reputation. When the decision is made and you have finally boarded the plane, there is no possibility to change your mind. There is no possibility for *exit* and now you just have to have confidence and hope to be delivered safely to the destination.

The air travel example also illustrates that there can be a dynamic relationship between trust and confidence. The crucial difference between the two states is whether there is power to choose to trust. If there is no possibility for exit, analytically, there is no trust, instead there is a state of confidence and one has to rely on the good intentions and abilities of others.

⁵⁹ According to Misztal 1996, this would be confidence, but I do not follow her use of degree of certainty to distinguish between trust and confidence.

⁶⁰ Price and time do not matter in this example, only the perceived risk.

While confidence is connected to relationships characterised by dependency, trust is an option in relationships where one can choose not to trust, that is choose *exit*. Hirschman (1970) suggests that there are three strategies at play; *exit*, *voice*, and *loyalty* to express a relationship, for instance as a customer or a citizen. *Exit* means choosing not to trust, for instance by leaving a relationship, whether this is as a customer who changes supplier, a constituent who stops voting, a partner leaving for divorce or an employee leaving an organisation.⁶¹ This freedom to choose is impossible in a relationship characterised by dependency. Trust, therefore presupposes symmetrical power, or superiority – a superior has the power to choose – and the possibility to choose exit. The analytical distinction between trusting and confidence, is that individuals bestow trust through a process of consideration, they chose to trust or not to trust, while confidence is the option in a situation of being powerless or where there is no possibility of exit.

Confidence is related to expectations in asymmetrical power relations and in situations characterised by powerlessness and/or dependency. Dependency or lack of influence means there is no freedom to decide to act or to refrain from action, to take a risk or avoid danger. If one decides to act, and for instance enters into a relationship, this is an indication of trust. If a potential risk is considered to be too great, and by corollary the trust is too low, the trustor can choose exit, which is leaving or avoiding the situation. The threshold for exit is an empirical matter of perception. Analytically, exit is a criterion of no trust. The actor may orally express distrust or lack of trust; but as long as she does not choose exit, provided this is an option, analytically there is trust. In situations of consideration, the actor expresses trust by *not* choosing exit. In situations characterised by dependency, the actor cannot escape the potential danger, insecurity, or feeling of doubt or disappointment, and analytically, she can only hope for the best, there is no possibility of exit and trust is therefore not an option. The relationship between savings banks and private customers for instance, was to a greater extent characterised by confidence than trust in the period up until the 1960s when there were few if any banks to choose between.⁶² Lack of trust in politicians can for instance be a consequence of disappointment with their decisions. In this situation, refraining from voting or emigration to another country (in the extreme version) are ways of expressing disappointment through exit.

⁶¹ If an actor consider exit, but chooses to stay, this is an act of trust. This action also can be an expression of *loyalty*, and opens *voice*, that is the expression of views, for instance in a customer relationship.

⁶² This was the situation for the majority of private savings bank customers up till the 1960s (Nordnes 1993).

Confidence is about ontological security, it is a relationship to forces greater than you and a reliance on powerful institutions and persons, such as the government, politicians, and public servants. The dependent can only hope or have confidence in others' willingness not to exercise arbitrary power. This is about fulfilling fiduciary obligations, such as the ruler's morality and goodness; the belief that the government will act predictably and keep laws and rules, or that powerful people and organisations will include considerations of others' needs in their decisions.

In situations characterised by asymmetric power relations and/or dependency, confidence can function as a mechanism to reduce contingency. One can only have confidence that people in powerful positions will attend to *fiduciary obligations and responsibility*. This means that they will not misuse their authority to promote their self-interest and will include considerations of others. Confidence in this is 'essential for the relatively orderly functioning of society'; according to Barber (1983:16). I fear that this is perhaps a naïve expectation in an increasingly competitive society where self-interest seems to gain ground everywhere as a taken for granted premise for social interaction.

Confidence and social change

The importance of confidence appears to increase in uncertain times. One hallmark of modern societies is the growth of complex institutions and organisations which can exert great power and intervene into or affect many lives. Banks, organisations, insurance companies, state institutions, and big companies have huge power and influence. The general public can only have confidence that these power structures will take into consideration fiduciary obligations and responsibilities. For instance, measurements of trust indicate that the Norwegian population traditionally has high levels of trust in government (Hellevik og Børresen 1996, Ingelhart 1997, Skirbekk 2012). Analytically, I think these polls measure confidence rather than trust. The Norwegian population has high confidence that the government takes into consideration fiduciary obligations and responsibilities of the citizens. New ways of public organisation, such as New Public Management, can in the long run challenge this confidence, as the achievement of economic and management aims in public services becomes a higher priority than the needs of the population.

To summarise; confidence can have more than one basis and can be regarded as a form of basic trust, related to taking for granted that everyday life and nature continues as usual. This

is confidence as an element in the general pre-contractual basis for trust. But, as pointed out, confidence is also about fiduciary obligations and dependency, the expectation that someone will act in the interest of others. The difference then between the term pre-contractual, which refers to the social ‘contract’ – often tacit and taken for granted – as the basis for trust, and confidence, is that confidence is related to dependency and lack of power to exit. Confidence can therefore be an element in the pre-contractual basis for trust.

Social change is one example of this difference. The pre-contractual basis for trust is under pressure from social change and reflexivity; the taken for granted is questioned. This process creates doubt and uncertainty about social premises, norms, and strategies. The uncertainty increases the need for strategies for normative and practical clarifying and predictability. In practice this means interaction and negotiation to clarify new social bases that gradually will be taken for granted. But this is not enough, it is also necessary that legitimate powers develop new formal contracts, rules and regulations. Usually one can only have confidence in these formal structures and the powers behind them.

8.5 Pre-contractual trust – conclusions and further questions

This chapter concludes that pre-contractual trust is about the social contracts, the taken for granted social basis we have in common, while the *familiar* is the known and individually recognisable. The familiar can breed both trust and distrust and is an element in pre-contractual, relational and structural trust. Pre-contractual trust is comprehensive and a necessary basis for social life, it stretches beyond narratives and familiarity and into the unfamiliar. Through pre-contractual trust one implicitly assumes that the unfamiliar is a type of the familiar.

The discussion about distinctions between trust, familiarity and confidence, can be concluded with a further analytical specification of the pre-contractual basis for trust. This is the *individual/relation* oriented basis, the *contextual/structural* basis and the *natural order*. The configuration of these bases will vary individually and contextually. They are not mutually excluding and change in one base does not necessarily affect the other bases; pre-contractual trust can be robust, but is at risk of being diminished by major transformations. Pre-contractual trust bases are an understudied subject, and further empirical studies of the pre-contractual bases for trust will give better insight into these processes.

Without pre-contractual trust, the leap of faith and social prediction will be difficult. For instance, we have to presuppose that other drivers drive on the right side, that the pilot is sober, that we will not be killed in the cinema darkness, and that our bank is honest. In a society without pre-contractual trust, social interaction will be troublesome and have enormous transaction costs. Pre-contractual trust is a social link between the individual and the society; it is about having common points of reference in social life. This is a precondition for interaction and cooperation and presupposes a certain degree of homogeneity, including a common cultural-, meaning-, and knowledge base.

Modernisation and processes such as deregulation, organisational restructuring, and social changes transform the social foundations of trust.⁶³ Increased individual freedom and migration have made society less homogenous. This, together with continuous social change, mean that less can be taken for granted in social life – the social foundations for pre-contractual trust are crumbling. This statement seems to presuppose the assumption that pre-contractual trust is based on an implicit premise of societal homogeneity. This is a complicated premise in heterogeneous, late modern western societies and raises several questions for further research. If the taken for granted is reduced in the social arena, does this also mean that the basis for pre-contractual trust is crumbling? Following that question, what are the consequences of crumbling pre-contractual trust for our societies, at the practical level in the short run and for social organisation in the long run? If formation of stable social communities presupposes a minimum of pre-contractual trust, is there a limit of social heterogeneity that makes pre-contractual trust impossible?

Finally, if pre-contractual trust is as pivotal for our society as I assert, it is of great social importance to explore empirically how this form of trust can be facilitated and restored. One form of new and widespread familiarity is based on globally recognisable narratives, and this emerges as a possible new common basis for pre-contractual trust. On one hand the process of reflexivity and reformulation of the pre-contractual basis for trust creates doubt and uncertainty about social assumptions and thereby an increasing need for contracts, rules, and strategies for normative clarification. On the other hand is the social effect of these processes

⁶³ This will be further discussed in chapter 11, 12 and 13.

that pre-contractual trust is not declining, rather that the social basis for it is continuously transformed.

To return to the trust paradox; this means that the *well of the taken for granted* is drying up with regard to *individual* familiarity, but that the *contextual* familiarity is expanding and that there are emerging multiple foundations for developing mutual understanding. The social challenge is how to absorb and reconstruct the apparently crumbling pre-contractual trust, and how to manage a continuous development of mutual understanding.

This is the subject of the next chapter, which explores the concept of *relational* trust.

9. RELATIONAL TRUST

*'The complexity of the future world
is reduced by the act of trust.'*⁶⁴

– NIKLAS LUHMANN

Face to face relationships, interaction, and familiarity are the basis for relational trust. This is the interpersonal trust that pervades social life, and is constructed and re-constructed through social interaction and communication. Relational trust is a social glue and basis for social interaction; it is the quality we intuitively perceive as 'trust'.

As the literature review in chapter 2 demonstrated, relational trust can be categorised into different forms of trust and can be analysed from various perspectives. The concept *relational trust* is applied in the thesis to conceptualise trust as a social process. This concept is generated from an exploration of trust between bank and customer. The empirical focus was on the face to face interactions across the bank counter and the study revealed that trust is a dynamic social quality; it is a state *and* a complex process of social construction. Trust can be the foundation for a relationship, it is a process to maintain it and it can be an outcome of relational process. Trust is generated in the interaction between pre-contractual, structural and relational elements as basis for mutual understanding.

The micro level study of the trust process revealed that trust relationships were based on various forms of familiarity and that there is interaction of many different expectations in a trust situation. This chapter focuses on these two elements in relational trust; development of familiarity and the content of expectations as elements in the social construction of relational trust.

The chapter starts with a presentation and discussion of three forms of familiarity and thereafter follows an expectations model for in-depth studies of trust processes. This model is an analytical tool for an examination of how the interaction between different forms of expectations affects the social construction of trust. In this chapter as in the two preceding chapters, sociological theory is applied to make a theoretical grounding of the empirical

⁶⁴ Luhmann 1979:20

grounded concept, and here the focus is on relational trust. A theoretical grounding will expand the analytical potential of the grounded theory and introduces new elements into existing perspectives on trust. The chapter concludes with a discussion of the role of relational trust in social change.

9.1 Relational trust and familiarity

Relational trust bridges the barrier between oneself and the other; it develops step by step through communication, interpretation, negotiations, involvement, and mutual commitment to the trust process. The discussion of the social construction of relational trust is based on the grounded theory of trust which states that *the social basis for relational trust is social interaction based on pre-contractual elements and familiarity*. Familiarity is knowledge acquired through socialisation and experience; it can be ascribed and mediated. Familiarity and pre-contractual elements are the basis for expectations; they influence interaction and the development of mutual understanding. Expectations are *social hypotheses* and assumed promises. Trust is a hypothesis and reliance that expectations will be satisfactorily fulfilled. Social interaction is a ‘testing’ of this hypothesis. If the test leads to confirmed mutual understanding, then pre-contractual trust is maintained and relational trust is generated. If the ‘test’ fails and the interaction does not confirm mutual understanding, the social hypothesis is refuted. The effect is that pre-contractual trust in this setting is undermined and the familiarity is questioned.

The elaboration in the two preceding chapters introduced a theoretical grounding of the concept pre-contractual trust and pre-contractual bases for trust. The notion pre-contractual trust is a new construction even though the social processes included in this notion are examined in sociological literature. The concept *relational* trust is not new; various forms of relational trust are discussed in the trust literature. According to Rousseau et al. (1998:399) relational trust ‘derives from repeated interactions over time between the trustor and trustee’, and ‘information available to the trustor *from within the relationship itself* forms the basis of relational trust’. This definition includes two main dimensions of relational trust; interaction and information; elements which breed familiarity – a vital quality for developing trust (Luhmann 1979, Simmel 2004, Lewis & Weigert 1985), and in particular relational trust.

Interaction rarely starts totally from scratch. There is a pre-contractual basis and the interacting partners are more or less familiar with each other. The level of familiarity in a relationship varies in emotional depth and interdependence (Sheppard & Sherman 1998), it will vary with social and relational distance and with regard to perceived risk. The pre-contractual basis for interaction is different among family members, friends, customers or foreigners. Even though relational trust is based on familiarity and acquaintance, it does not mean that there is always trust when there is familiarity. The greater familiarity, the greater is the reason for trusting or distrusting.

Familiarity may be the basis for indifference (Luhmann 1979:19). The pre-contractual basis for interaction between, for example, family members contains a life history and numerous interactions. A lot can be taken for granted, but the family members do not necessarily have the same experiences and interpretation of their common family history.⁶⁵ There can be a relationship of trust, or not. Family members may trust each other in some areas but not in others, and by interacting step by step they may develop trust and mutual confirmation of each other's expectations. Interaction can also reveal that in spite of familiarity and assumed mutual understanding, promises are broken, there is betrayal or negativity, and the other is perceived as unpredictable and unreliable. Trust is undermined and can be transformed into indifference and even distrust.

A foreigner visiting a new country for the first time may have little information in advance; there is low or no familiarity. But the foreigner has a pre-contractual trust that some of her social scripts for everyday interaction will have at least some validity in the new country and has to test this through interaction. These experiences and the information achieved by staying there will gradually create familiarity with the social life in the new place. Through repeated interactions with the same people, relational trust can be developed and the pre-contractual basis for developing trust is extended.

Even though interaction can reveal deceit, misunderstandings, disagreement and other trust undermining events, social interaction is the most important strategy to repair and maintain

⁶⁵ Examples of this is told in an autobiography of a family *The Children of Sanchez* by American anthropologist Oscar Lewis (1961) and the autobiography *Kom ikke nærmere - Jeg og far (Don't come any closer - Me and father)* by a famous comedian in Norway, Trond Kirkvaag (2007). Trond experienced their father very different from his siblings.

trust. Through step by step interactions common frames of reference are developed, adjusted, recreated and confirmed; these processes can clarify a familiar pre-contractual basis for trust, generate relational trust and initiate new patterns of action and interaction.

9.2 Three bases for relational trust

Relational trust is related to personal relations and reciprocity (Zucker 1986, Misztal 1996, Sztompka 1999), to face to face relations and small group relations where those involved know each other and share common norms and rules (Giddens 1993, Hart 1990, Luhmann 1979). Developing relational trust can be a challenge in cooperation between strangers, in settings where familiarity is low, and when it comes to trust as a mediated quality where familiarity is constructed over distance.

Zucker (1986) explores trust in economic relationships and on a macro level, and this elaboration on trust as a concept has relevance for understanding the construction of trust as a general social process. Trust can be categorised into three forms based on the modes of trust production (Zucker 1986:60). The trust forms are *process*, *characteristic*, and *institutional* based trust. According to Zucker is process based trust tied to past or expected exchange, and reputation, brands and gift giving are the main sources of this form of trust. Characteristic based trust is tied to the person and to close relations, it is ascribed on the basis of family background, ethnicity, gender, or nationality. Institutional based trust is non-personal trust and tied to formal social structures and intermediate organisations, and will be further discussed in the next chapter about structural trust. The three trust forms have three dimensions: *basis*, *source* and *measures*. Basis is what the trust is tied to respectively; exchange, person, and formal structures. Source of trust refers to the basis for familiarity such as reputation and brands, family background and ethnicity, and professional associations and bureaucracy. Measures of trust are related to trust as a commodity and whether there is a market for trust and the possibility for purchasing trust. According to Zucker (1986) process based trust is person or firm specific and is therefore not readily transferable. Persons or firms have to invest time, effort or money to develop a positive reputation or an attractive brand, that is process based trust. Characteristic based trust is a free trust, characteristics are ascribed and cannot be purchased, in contrast to institutional trust, which can be purchased; for example insurance or education leading to a professional title such as a medical doctor. The

generation of the composite concept of trust is inspired by Zucker's (1986) trust forms and discussion of trust and socio economic change.

The composite concept of trust refers to three social bases; pre-contractual, relational and structural, and the corresponding forms of trust – pre-contractual, relational and structural trust. The relational and structural forms of trust have some resemblance to characteristic and institution based trust, but the rest of the conceptualisation is somewhat different from Zucker (1986). The social bases referred to in the composite concept of trust are generated through various social processes. The pre-contractual base for trust is acquired through socialisation, the relational base through interaction and the structural base through institutionalisation. These three social processes are related to different analytical levels. Socialisation is a process where actors internalise social scripts and codes, interaction takes place between actors, and institutionalisation is the generation of larger systems of meaning which embraces societies and cultures. Development of trust takes place across these levels. As mentioned previously; the leap of faith is a psychological process, a decision with a social basis, and the social elements such as interaction and formal structures have different emphasis in each trust process – that is different social configuration – depending on the empirical context of the trust process.

The empirical grounding of the composite concept of trust demonstrates that the relational basis for trust includes more than one form of familiarity. Inspired by Zucker's modes of trust production (1986:60), three main forms of familiarity are suggested here as elements in the basis for developing relational trust. These are *achieved familiarity*; that is familiarity developed from experience and past or on-going interaction, *ascribed familiarity*; this form of familiarity is linked to family, kinship, common ethnic or religious background or subculture, and *mediated familiarity*; which is a form of perceived familiarity communicated and generated through media or a middle man as intermediaries.⁶⁶ The three forms of familiarity are not mutual excluding. They are analytical constructs and sensitising concepts for further exploration of the social bases for expectations and mutual understanding.

The thesis focuses on the characteristics of the social basis as sources of trust. The social basis are the foundation for the interaction process, for predictions and expectations, for developing

⁶⁶ Hawala banking is an example of mediated familiarity; see chapter 11 about trust configurations.

mutual understanding and the leap of faith, and provide a bridge between the individual and a greater community. The social bases are not static; they are under continuous influence from social activity, but how and to what extent the basis is influenced by a particular activity, is an empirical question. The composition of the social bases of trust in a particular situation is the *social configuration of trust*. Social change and transformation will affect the social configuration of trust and this will be further discussed in chapter 11. Analyses of the elements in the trust bases will provide insight in how trust is generated and how it can be maintained and repair.

9.3 Mediated familiarity – an expanding social basis

According to Zucker (1986:60) *process based* trust is based on exchange, and the sources of trust are reputation, brands and gift-giving.⁶⁷ Reputation and brands are mediated sources of trust. Mediated sources of trust are the basis for and generate a feeling of familiarity independent of physical or relational proximity, which is the traditional basis for familiarity. Mediated familiarity is a form of relational trust, based on a sense of proximity to something which is distant. The term mediated familiarity embraces some relevant social processes which seem to have increasing importance as foundations of trust.

Mediated familiarity is based on information and knowledge and communicated first and foremost through media such as for instance the Internet, newspapers and television, but can also be spread by word of mouth. Mediated bases for trust are gaining ground; they create a distant familiarity based on an assumed confirmation of expectations and an assumed, unilateral mutual understanding. Negative information can undermine the trust based on mediated familiarity.

A good reputation can, for instance, be characterised as mediated trust. Marketing and brand building are efforts to create a good reputation and build trust to a product through mediated communication. Private businesses use marketing, logos, labels and social media (for instance Facebook, You Tube and Tweets) to communicate advantages, values, and ethical standards to the customer, and to create a feeling of familiarity between the customer and the product. Branding and marketing strategies aim to develop familiarity and a pre-contractual basis for

⁶⁷ Gift-giving was perhaps more prevalent in traditional societies and tribal societies as basis for process based trust.

the customer's trust by telling the customer what she can expect from the company or the product. This mediated information is also a basis for interaction and development of a relationship with the customer.

Huge international brands, such as Coca Cola and Mc Donalds, are examples of labels familiar to billions of consumers who have some element of pre-contractual trust in these companies as a platform for development of relational trust. Consumers take for granted that these products are acceptable and desirable wherever they are sold, and their familiarity is built on standardisation and recognition. However in recent times, the pre-contractual trust in these global labels has been somewhat undermined, partly because of anti-American and anti-globalisation attitudes, partly because of the poor nutritional value of the products, and partly because of environmentally damaging ways of producing these products (Klein 2001). This illustrates that trust cannot be taken for granted, but has to be continuously maintained.

Trust in politicians is mediated and to some extent structurally based. Public trust in leaders, pop stars or other famous people is based on mediated information and probably a dash of cultural homogeneity. As specialisation increases, various functions are outsourced to strangers and the potential range for mediated familiarity and trust is expanded. Encounters with strangers are a pervasive feature of everyday life. Customers and clients accept that strangers, such as customer advisers and clerks, handle their most private affairs. The clerks' task is to create familiarity and function as trust mediators between the product and the customer. Public authorities communicate through information brochures, service declarations, and web pages to establish a basis for familiarity and make the general public trust their services. Media such as newspapers, gossip magazines, TV, and the Internet contribute to a break-down in the barrier between the public and the private. Famous (and less famous) people from entertainment as well as politics are frequently presented in media, where people 'encounter' them and get access to the private details of their lives and doings. This creates a mediated familiarity which is the basis for a mediated relational trust. In the long run, this can develop into a pre-contractual trust.

Is mutual understanding possible in one-sided relations where familiarity is ascribed or mediated? This form of mutual understanding is not the same as a relational quality, rather it is a personal assurance based on the perception or feeling of confirmation generated from the impressions of the other. For instance, trust in politicians can be based on their ability to

communicate through media, their dialogues and interaction with people and potential voters. Relational trust in the bank or an airline is similarly dependent upon the organisations' ability to communicate with their customers through marketing and interaction. The organisations must clarify their promises about what customers can expect from them and how these promises can be fulfilled through the interaction with the organisation. The fulfilment is enacted by the service of the customer adviser and the crew in the airline, by punctuality and acceptable technical standards as well as by the way unforeseen problems are managed. Personal service and interaction are the building blocks in the development of relational trust, and are crucial when customers experience unexpected situations such as delays in airline transportation or changes in prices for bank services. Trust is 'infectious' – if personnel in an organisation are unable to develop or maintain trust in relation to the customers (relational trust is undermined), or technical standards are not met (there is a lack of structural trust), this will 'infect' the trust in the company, and thus spread among potential and actual customers and even to other organisations of the same kind, like other banks (Nordnes 1993).

9.4 Ascribed familiarity – a diminishing quality?

The second type of familiarity that features as an element in relational trust is *ascribed* familiarity. Ascribed familiarity can also be based on distant familiarity such as mediated familiarity, but the social processes for generating familiarity are different. Ascribed familiarity can be taken for granted and included in the pre-contractual basis for trust and is activated in the development of relational trust.

Ascribed familiarity refers to ascribed characteristics and information about social similarity such as family, kin, tribe, ethnicity, religion, gender and similar forms of identity based community.⁶⁸ One is born into ascribed familiarity and this is based on the assumption that, for instance ethnicity, biology and kin are basis for common binding norms and rules. This form of ascribed familiarity is based on a collective "we" as distinguished from "the others" and represents a potential basis for exclusion of those outside the community. Exclusion can be a barrier in cross-cultural cooperation, one's own culture is the familiar "we" and a pre-contractual basis different from the "others". Cooperation across cultures is about moving beyond the "us and – them" distinction and interacting despite different pre-contractual

⁶⁸ The notion 'strong evaluations' (Seligman 2000) mentioned in the preceding chapter, resembles ascribed familiarity as both notions refer to common, identity based normative orientations.

foundations. In these situations little can be taken for granted, and a new common pre-contractual basis has to be developed step by step, through repeated interaction, dialogue, and mutual confirmations. These are necessary to acknowledge that there is something in common. These gradual developments of relational trust will strengthen over time and enlarge the common pre-contractual basis for trust. Gradually, a new basis for familiarity is developed, but this familiarity is achieved, not ascribed.

A regal example

In addition to ascribed familiarity founded on identity and community, the social positions of nobility and royalty are foundations for ascribed familiarity and the subsequent trust based on this. Ascribed trust is linked to the expectation that people in these positions of power attend to responsibilities and fiduciary obligations related to their social positions. One example of ascribed trust, is trust in the monarchy, specifically that of trust in the Norwegian King Harald.

The monarchy is an example of the interaction between various bases for trust. Trust in the Royal Family is based on ascribed familiarity; they are born into a regal system that is known and trusted. In addition, there is a structural basis, a formal legal structure that secures the legitimacy of the monarchy. The long-term survival of the monarchy is dependent on maintenance of trust, and to maintain the people's trust, the Royal Family has to develop relational trust, mainly on a mediated basis.

Development of relational trust is even more necessary if the royals marry a commoner. New members of the Royal Family have no ascribed familiarity and trust; they have to develop a new basis for familiarity. The marriage between a royal and a commoner is a basis for structural trust; in addition the new member of the Royal Family has to earn trust through working with the pre-contractual trust basis and mediated relational trust. This is an on-going process in the Norwegian monarchy and is an additional example of the dynamics of trust processes.

The Norwegian crown Prince Haakon fell in love with a common girl, a single mother with a somewhat questionable past. Her entry into the Royal Family can be analysed as an encounter between different forms of trust and the development of a new configuration of trust bases. Her past raised discussions whether she was appropriate as a future queen or not. The

people's trust in the monarchy was challenged. The Royal Court, media, the bishop of Oslo and the young royal couple worked hard to develop a new image of her to fit better with her role as a crown princess. This means to develop an acceptable basis for familiarity and relation based trust. The new image of the crown princess was a narrative emphasising her as a caring mother and the people's Crown Princess; a Norwegian princess Diana. The public discourse on this subject was a reflexive process of reconfiguration of the role of the Royal Family and the monarchy, about what we could expect of them, how they should behave and shape their role in the society.

This process is a reconstruction of the bases for trust in the monarchy and now, a decade on, and after most intensive debates, it appears that the redefinition has been successful. The Crown Princess appears to fit very well into her new role, at last. She has built her own basis of mediated familiarity and relational trust based on openness to media and interaction with various groups of people. But mediated trust does not seem to be as strong as the ascribed. Opinion polls indicate for instance, that the Norwegian Queen Sonja does not have the same level of trust as her husband, King Harald. Queen Sonja is a commoner, but is described in the media as very competent and hard-working, despite this, her popularity scores are 10 to 15 percent lower than the King. It appears that as long as the royals behave as expected among people, trust is maintained – both relational trust based on familiarity and structural trust in the monarchy as a power structure, but it also demonstrates that the trust is conditioned and fragile.

Trust in political leadership can have an element of ascribed familiarity, for instance trust in politicians from political dynasties such as the Gerhardsen or Stoltenberg family in Norway and the Kennedys' in the U.S.A. The ascribed familiarity is an initial pre-contractual basis for trust, but politicians are dependent on continuous maintenance of constituent trust. This trust has to be maintained on a relational basis, though political activity and interaction with the constituencies, as a process of mediated and interaction based familiarity.

Finally there is a question about whether ascribed familiarity has diminishing importance as basis for trust in the late modern society. The answer to this question is not obvious, but needs to be further explored on an empirical basis. On first sight it appears that some of the identity markers for ascribed familiarity, such as family, religion and kinship have lost ground in Western societies. On the other hand religious sub groups with strong (zealotical) engagement

and ethnicity based groups appear to have expanded. In non-Western societies the importance of kinship, family, kin, tribe, ethnicity, religion, and gender is undergoing transformation, and it is difficult to point out a particular pattern in these transformations – the pace of modernisation is too uneven and differs both regionally and nationally.

Ascribed trust – a barrier for economic development

Ascribed trust can have an economic impact. According to Fukuyama (1995) there is a distinction between low-trust and high-trust societies, and a connexion between sociability – the ability to develop social relations – and economic organisation. Low-trust societies are characterised by strong family and kinship ties, of particularistic relations but weak or no external ties. Ascribed relational trust is the prevailing form of trust. This means that there can be strong trust among the insiders but no or very little trust in outsiders; there is no common pre-contractual basis between these two groups. The lack of trust functions as a barrier for interaction between insiders and outsiders, a barrier that limits economic development. High-trust societies have a wide basis for pre-contractual trust supported by structural trust, and have no or few relational barriers between insiders and outsiders or between internal and external economy. Transactions flow regardless of social ties and belonging. The sociability of these societies can be characterised by ‘the strength of weak ties’ (Granovetter 1973). According to Granovetter, weak social ties have an integrative effect in the society, while strong social ties have an excluding effect on those outside the ties.

Ascribed trust, particularistic relations and barriers between internal and external economy are characteristic of pre-modern occidental societies (Weber 1978), which can be characterised as low-trust societies. Modernisation transformed Western societies to high-trust societies (Fukuyama 1995). The Christian religion was an important component in this and facilitated economic growth by lifting barriers between insiders and outsiders (Collins 1992:93). Removing the barrier between insiders and outsiders’ means instituting a new pre-contractual basis for trust where ascribed familiarity is not the only basis for familiarity.

A non-dualistic ethic, calculable commercial law, and rational bureaucracy are some of the intermediate conditions for development of rational capitalism. This growth of a universalistic rationale allowed the development of trust on a wider basis than ascribed trust (Collins 1992, Fukuyama 1995, Weber 1978). The Protestant ethic was a moral superstructure that,

combined with universalistic, formal structures such as commercial law and rational bureaucracy, functioned as a basis for trade and structural trust.⁶⁹

Religion as a basis for ascribed trust, relational trust, can function as an obstacle to economic growth. In economies with a religious basis that distinguishes between internal and external economies, between insiders and outsiders, there can be complete ruthlessness and unscrupulousness in trade with the external economy (Weber 1995:267). There are no obligations to trust or commit to the other. The reliance on ascribed trust functions as barriers against external economic transactions. The clan economy in China and the caste economy in India are examples of this (Fukuyama 1995). Tribe and clan economies have a common internal basis for pre-contractual trust in addition to relational trust, either developed through face to face interaction or ascribed. This trust is not extended to external partners; the economy is not based on structural trust mechanisms, neither internally or externally. Even today, the barrier between internal and external economies is to some extent still functioning in the relationship between the traditional oriented Muslim economies and Western capitalism; the trusting heritage of the clan economy is still active to some extent. As stated on the Internet page *Questions on Islam*: 'It is permissible to make trade with non-Muslims. We can prefer Muslims if there are Muslims who buy and sell the same things'.⁷⁰

Another example of the interaction between various forms of trust and transformation of trust bases is the organisation of credit among Frafra migrants in the city slum of Accra, the capital city of Ghana (Hart 1990). The migrants formed a separate economic community where credit had to be based on friendship and interaction based trust as different from ascribed trust based on kinship, which would have been the traditional basis for trust among Frafra people. Kinship ties did not fit in with the new migrant community, and the migrants did not have access to the formal credit system based on contracts and structural trust. In addition, Frafras were not familiar with contracts and formal structures as basis for trust, papers and signatures did not have any binding power among them. Face to face interaction combined with friendship and personal commitment became the new basis for trust. When replacing kinship ties with friendship, the obligation became an individual responsibility between two parties, and not a matter for the tribe.

⁶⁹ Development of social bases for structural trust will be further discussed in the next chapter.

⁷⁰ <http://www.questionsonislam.com/question/international-trade-permissible-islam> (04.10.13)

To sum up, relational trust is based on various forms of familiarity generated through achievement, ascription or mediation. Achieved familiarity will be further discussed in the next section. Familiarity based on lineage, clan, tribe, ethnicity, or gender is ascribed and can be one-sided; a feeling of belonging, or bilateral; that the belonging is confirmed by the larger group. The third basis of familiarity is mediated, either as knowledge transferred through various media or based on interactive exchange of knowledge through the Internet. The three sources of familiarity are based on different forms of relations; they represent different forms of knowledge and pre-contractual assumptions, and they are generated through different social processes. Mediated familiarity is the basis of trust created over distance, ascribed familiarity can form strong social ties, and achieved trust is based on interaction and is an element in everyday activities.

Social change means that new ways are needed to organise the social construction of trust. The analytical tools for studying trust processes have to make visible the transformation of trust bases and changes in trust configuration. Processes such as the shift from ascribed to relational based familiarity and the development of structural bases for trust, are indicators of social modernisation. Modernisation indicates that low-trust societies based on the prevalence of ascribed trust have been transformed to high-trust societies with multiple bases for trust, and a diminishing role of ascribed familiarity. Hypothetically, if groups based on ascribed familiarity significantly expanded in a high trust society, might this transform the high-trust society into a low-trust society? This is a question about whether the trust effects of modernisation can be reversed, and needs further empirical exploration.

The rest of this chapter elaborates on various aspects of the third basis for relational trust, the *achieved* trust, which can be described as interaction and experienced based trust. The focus is on how to analyse interaction as an element in the social construction of trust. Development of trust through interaction is an ordinary and continuous social activity that maintains or weakens pre-contractual and relational trust depending on the outcome of the interaction and the nature of the relationship. Interaction can also be a platform for innovative action, for expanding the area of familiarity through negotiation and creation of new bases for trust. In situations of role interstices, - situations where defined role expectations are no longer viable (Seligman 2000) or in cross cultural contact, interaction opens possibilities for development of new social patterns and new familiarity.

9.5 Relational trust and expectations – a model of expectations

The rest of this chapter is an exploration of how trust is generated and unfolds as a micro level social process. Relational trust and the development of its various forms are basic social processes and provide the foundation of social life and interaction. Classical sociological concepts such as roles and expectations are useful tool to analyse how these general social processes unfold and how they contribute to development of trust.

Trust is at stake in situations where ‘systemically defined role expectations are no longer viable’ (Seligman 2000:25), in situations where role performance is changing and there is role negotiability. These kinds of situations create *open spaces* of roles and expectations, spaces for negotiation and change. Open spaces are situations where there are differences in expectations and where mutual understanding is low or absent. Analyses of open spaces as contexts for trust and change demand a further investigation of expectations and this is the focus in the rest of this chapter.

Trust and expectations

Expectations have been discussed previously in relation to prediction of future actions. In the following section, expectations are explored in relation to the process of developing trust and a model for analysing the role expectations in the social construction of trust will be presented.

Trust ‘is defined as a set of expectations shared by all those involved in an exchange’ (Zucker 1986:54). With reference to Schutz (1962) and Garfinkel (1963), Zucker suggests two defining components in trust: *background expectations* and *constitutive expectations* (Zucker 1986:57, 58). Background expectations are the common understandings that are ‘taken for granted’ and related to ‘the attitude of everyday life’. They are standardised attitudes and codes of everyday life. These forms of expectations are not specific to any situation in particular, but serve as general, practical, and normative framework for action and behaviour. Background expectations include reciprocity of perspectives, which means sharing the same frame of reference. From my point of view, reciprocity of perspectives can be interpreted to mean the same as assuming that there is mutual understanding and that the other will confirm and act in accordance with this. Constitutive expectations are contextual and related to a particular social setting: a sector, an exchange, or an interaction; and are characterised by the independence of persons, independence of intersubjective meaning, and independence of self-

interest. By independence of self-interest Zucker means that the expectations are related to structural elements such as professional role, and not to the individual qualities of the person in the role.

In this thesis the use of and content of the terms *background* and *constitutive* expectations are inspired by Zucker, but differ somewhat from Zucker's use of them. Both background and constitutive expectations are elements in the pre-contractual basis for trust. As discussed previously, trust is more than expectations. Trust is a belief in and reliance on one's own expectations and the others confirmation of them, and a belief in the other's ability to keep the social promises. Trusting is a way of eliminating a perceived risk, an effect of the leap of faith, and based on mutual understanding which has a social basis. This social basis for trust, including background expectations and constitutive expectations, in addition to mutual understanding is developed through interaction and the other's confirmation of one's expectations.

Confirmation of mutual understanding does not mean total agreement or total understanding. It is only an acknowledgement that there is a necessary set of common rules that need to be fulfilled. Mutual understanding presupposes an acceptable level of reciprocity, for the actors, of perspectives and intersubjective meaning. This level is a subjective construct and cannot be decided analytically; it is an individual element in trust. But the bases for mutual understanding can be explored analytically; this is the social input in the trust process and consists of pre-contractual, relational and structural elements as the platform for suspending doubt. A study of trust involves a study of the content of these elements, and expectations related to the relevant social context. The empirical exploration of expectations in the trust process can be presented as a model, a table of expectations.

9.6 A model of expectations

An actor has to make assumptions and expectations and act as if the other can be trusted, expectations are the key to social interaction and trust, they are based on familiarity and guide social behaviour. Trust is contextual, and behaviour and attitudes that are appropriate in one context can be inappropriate in another. To be trusted requires appropriate behaviour with regard to general and specific expectations. Studies of trust development, undermining of trust

and trust repair therefore demand examination of the nature of unfulfilled expectations and how an anticipated mutual understanding is not met.

In analyses of social interaction at the micro level it is therefore useful to specify and characterise the content of expectations beyond background and constitutive expectations. In addition there are specific and unspecific expectations. The terms *specific* and *unspecific* are used as sensitising concepts (Blumer 1954), to guide what to look for, and they are inspired by Parsons (1979) pattern variables which describe value orientations. Here the terms refer to the content of expectations. Unspecific expectations mean that these expectations are related to tacit elements of social interaction; to attitudes, norms, values, and non-quantified standards.⁷¹ Unspecific expectations can be difficult to define and articulate, they are normative and can be specific on some values; for instance that killing, stealing or lying is wrong. Then there can be difficult to decide when one is honest or dishonest, for instance what characterises honesty in a particular context. Specific expectations are related to action and practice; they are about rules, rights, procedures, and other more tangible and specified elements in social interaction. In this context is background and constitutive expectations are related to general cultural context and specific settings, respectively. Specific and unspecific expectations are related respectively to visible practises and assumptions about values and norms.

Social interaction includes all four types of expectations, but they are more or less prevalent. Most expectations are characterised by both specific and unspecific elements. They are about how action and practices should unfold as well as about which attitudes, norms and values that should guide action and practices. Specific expectations are related to roles and unspecific expectations are related to social behaviour and motivations in general. Stereotypes (for instance about gender, religion and culture) are deep social structures, involving mainly tacit and taken for granted assumptions about behaviour and norms. Such stereotypes can be categorised as unspecific background expectations.

Expectations are complex; they are about what *to do* as well as what *not to do*. A phenomenon is comprehended in relation to something that it differs from (Bateson 1985, Luhmann 1979). For instance, when we characterise somebody as a child, we simultaneously say that she is not

⁷¹ The Norwegian word *uspesifisert* which means *not clearly defined*, is translated by me into the term *unspecified*.

an adult. When we have expectations, they are not only about what *to do* – in addition there are a lot of implicit and taken for granted expectations about what *not to do*, in a particular situation as well as in general. There are a lot of tacit social codes and the *not to do* codes are probably less explicit than the *to do* codes. In interaction actors have to take this into consideration, what to expect the other *to do* and *not to do*. To maintain our trust the other has to fulfil both kinds of expectations acceptably. From this perspective, social interaction is very complex and strategies for social prediction such as expectations, social scripts, and what can be taken for granted are highly necessary to reduce the social complexity.

In order to analyse empirically how trust is developed or weakened, one strategy is to analyse the expectations of the interacting actors. The categorisation of expectations into four different types comprise the analytical labels and elements in social prediction, they are neither mutually exclusive nor complementary. Together, they can be categorised into a fourfold table as a tool to analyse and explain the interaction between different kinds of expectations and the development of trust. Empirical data indicates that context determines whether the expectations in all the four categories have to be sufficiently fulfilled to maintain trust.

The following table summarises different aspects of expectations that unfold in social relations. The table represents the outcome of analyses of empirical material (Nordnes 1993), it is an empirically grounded conceptualisation of expectations inspired and supported by sociological theory.

Table 2 Model of expectations

	<i>Specific expectations</i> ; related to practice	<i>Unspecific expectations</i> ; tacit, related to attitude
<i>Constitutive expectations</i> ; defining a particular context	1) Practical “how to do this” rules, routines and procedures in particular settings, visible action	3) Contextual, normative expectations to behaviour in the particular setting
<i>Background expectations</i> ; social behaviour in general	2) Normative, general “how to behave in this particular setting” rules for action, codes for communication and interpretation	4) Common, general social norms, values and typologies

The model provides four different qualities of expectations: background and constitutive, specific and diffuse.⁷² The four section table organises the kinds of expectations which are more or less prevalent in social interaction. The squares number 1 to 4 describe the level of expectations, from the visible surface of actions (square 1) to deep structural tacit cultural values and norms (square 4). Constitutive expectations are first and foremost related to the social role, while background expectations are first and foremost related to the personal attitude.

The table is relevant as a tool to examine in depth the social location of a breakdown of trust. This knowledge is relevant to the process of restoration of trust; to develop new configurations of social bases for trust. The next section discussing empirical examples will clarify this further.

Examples and further discussion of the expectation model

Development of relational trust is about fulfilment of expectations and tacitly assumed social promises. One example is being a customer in an expensive fashion store. In this setting, the tacit promises are helpful staff, good advices, and quality service (on the premise that the customer looks wealthy). On the specific level, this includes expectations about acceptable service in this context, such as help and skilled advice (square 1). In addition, the customer has expectations about a pleasant attitude from the staff (square 2). Politeness (square 3) and other general norms such as honesty (square 4) are more or less taken for granted.⁷³

This set of expectations demonstrates the tacit promises that the customer expects and that an expensive fashion store will fulfil. Entering this kind of shop, one assumes that there is a mutual understanding about this tacit promise; it is the social basis for expectations about how the promise can be fulfilled and how trust maintained. During interaction the customer will decide whether the expectations are sufficiently confirmed and experience whether there is sufficient mutual understanding. If so, she makes the leap of faith and maintains trust in this shop. If the expectations are insufficiently fulfilled, for instance if the staff did not show a pleasant attitude and the interaction revealed that there was not a mutual understanding of

⁷² These are related respectively to two of Parsons Pattern variables; diffuseness (unspecified) and specificity (specific). Diffuse expectations can in be specific in one sense, for instance expectations about what not to do and about moral norms in various situations, but here the notions diffuse points to that these forms of expectations are usually tacit, taken for granted and not specified.

acceptable attitude towards customers, then the shop has broken an important element of the promise. The effect is an undermining of trust, and in the next shopping event, this shop is avoided. (The risk in this case is rather low for the customer, who can choose another store, but the example illustrates the outcome of different expectations.)

The development and maintenance of trust related to normative expectations are connected to the symbolic system, culture and norms in a society. Unspecific expectations are fulfilled by interpretation of the symbolic aspects of actions as well as by attitudes communicated through performance. Specific expectations are about action and practice and how routines, rules, duties, and tasks are performed. These can be specified in contracts and agreements; they can be technical, instrumental or quantitative routines or procedures. Lack of mutual understanding of norms and how they ought to be practised in a social situation may cause value conflicts. These kinds of conflicts are difficult to solve; they can undermine trust, generate distrust and result in exit from a relationship (Hirschman 1970, Barber 1983, Lipset 1983).

The classification of expectations is relevant when examining erosion of trust, generation of mistrust, and restoration of trust. Is crumbling trust a result of lack of mutual understanding, of poorly performed procedures, unexpected changes to the rules, or an unexpected deviance in performed attitudes and values? What is the outcome if the diffuse expectations are fulfilled and the specific expectations are broken – or vice versa? These matters have to be investigated empirically. Empirical case data indicates that erosion of trust because of broken unspecific expectations is harder to restore than if it is caused by broken specific expectations (Nordnes 1993, Weber & Carter 2003). This needs further investigation, but data indicated that as unspecific expectations were related to norms and values and to moral standards and the violation of these seemed to be harder to accept and trust more difficult to restore.

According to Weber & Carter (2003:147) dignity and self-respect reside at the core of the person, to trust is to presuppose that one shares moral standards. In social interaction moral standards are activated as unspecific expectations. It is likely that violations of these expectations, (located in square 3 and 4 in the table of expectations), will hurt our core feelings. These feelings are harder to restore than a disappointment caused by violation of

⁷³ Honesty in the sense that your handbag is safe in front of the staff, but not necessarily absolute honesty when it comes to comments about your look and style.

rules or procedures, they are more specific (located in square 1 and 2 in the table) and related to task and role rather than the self. In addition, unspecific expectations can be difficult to make explicit and thereby it is difficult to know how to restore this trust violation.

9.7 Additional examples of the expectation model

The square numbers 1- 4 in the table indicate the “emotional depth” of expectations and familiarity activated in an interaction. In some situations, for instance in quick encounters between strangers, expectations are activated on square 1-2 level. Or in other words: one expects mutual understanding on level 1-2. Expectations on level 3-4 are not activated unless something very odd happens. Terrorism, for instance, represents a severe disruption of taken for granted expectations on level 3-4, and this may affect basic trust for people affected as well as others basic trust.

In enduring relations, such as in marriage and family relations, expectations can be activated in all four squares. It likely to assume that there is some flexibility with regard to fulfilment of expectations in square 1 and 2, but ruptures in squares 3 and in particular in 4 can be harder to accept. Breach of trust in love and friendship are hard to restore (Weber & Carter 2003). Kissing a person other than your partner late in the night will probably for most people represent a rupture of expectations in square 1-3 as well as in square 4 for many of us.

In some situations, for instance in customer relationships where a customer receives bad treatment, rupture of expectations in square 1 can be accepted as long as those in 2-4 are fulfilled. In other situations, rupture in square 1 is sufficient to choose exit and not trust.

The ethical trend in business is one example of the complexity in customer trust relationships. In the Autumn 2006 a journalist and former employee of The Norwegian celebrity gossip magazine *Se og hør*⁷⁴ published a book revealing and criticising the somewhat unethical working methods of the magazine. Some months later the magazine had a huge drop in their advertising incomes, a drop of 18 percent in the first quarter of 2007.⁷⁵ Several large advertisers had chosen exit, and some of them were quite explicit about why: they want to support publications that comply with the ethical principles of the press. The magazine had

⁷⁴ ‘*Look and listen*’, my translation

⁷⁵ The newspaper *Dagens Næringsliv* 20.06.07

broken this implicit promise, they did not follow these principles, and customers lost their trust the magazine. When the unethical methods were revealed, this infringed on general normative expectations, square 4 in the model, in addition to ethical press standards, square 3, and the magazine experienced that customers choose exit. The exit can be related to broken expectations in square 3-4, while expectations in square 1-2 were fulfilled as the numbers of print were high and any other dissatisfaction with magazine was not publicly articulated.

The example illustrates that social expectations are complex and the kind of expectations that are broken have significance for the generation of trust. The empirical material indicates that unfulfilled mutual understanding based on expectations in square 1, the specific constitutive expectations, can hamper development of trust and lead to exit, for instance in customer relations, but infringement of these expectations is the least harmful in relation to restoring trust. If the interaction continues in spite of infringed expectations and undermining of initial mutual understanding, mutual understanding can be restored through negotiation and clarifying. This appears to be the case also when mutual understanding of specific expectations related to general behaviour is not confirmed. If the interaction continues, mutual understanding can be developed and trust can be maintained.

Fulfilments of specific expectations can to some extent be a tangible process, a task is performed according to procedures. Social interaction with a low level of familiarity seems first and foremost to activate expectations in square 1 and 2, and trust is developed based on step by step confirmation of mutual understanding of specific expectations. With regard to unspecific expectations about contextual norms and attitudes, square 3, and general norms, square 4, these may or may not be activated by interaction. Data seems to indicate that mutual understanding is mainly taken for granted or not activated at all when it comes to diffuse expectations (Nordnes 1993, Ellingsen & Lotherington 2008). But if tacit expectations are activated and infringed, it can be damaging for the generation of trust and difficult to restore it. Values, norms, and attitudes are challenging to negotiate; they are developed over time and change slowly.

A few more examples may contribute to further clarification of the model. A relationship between bank and customer is characterised by specific, constitutive expectations about how bank procedures and bank performances are conducted. For example, that the bank is checking credibility and signing contracts are activities related to expectations in square 1. In

addition, there are unspecific, constitutive expectations that the bank will behave in accordance with economic rationality, relating to square 3, and there will be unspecific, normative background expectations about attitudes and norms communicated through the bank's performance, such as behaving honestly, linked to square 4. In addition, there will be specific background expectations related to ordinary behaviour in general, such as not shouting or making faces at the customers, and this fits with square 2.

In analyses of the development of trust in customer or client relations, the table illustrates which kinds of expectations are broken. If, for instance, a nurse is caring without empathy, the patient's trust could be damaged if the patient expected care with empathy – this is unspecific, contextual expectations in square 3 (and may be 4). But undermined trust is not necessarily the case. The patient could be aware that today's nursing does not involve care with empathy, but is only about fulfilment of particular tasks without an emotional element, and there is a mutual understanding about fulfilment of specific expectations, squares 1 and 2. Service declarations, aims and various rules and standards are examples of attempts to describe and clarify bases for expectations and make it possible to develop new mutual understandings.

The divide between law and justice is another example of diffuse and specific expectations and the interaction between them. The law is the written rules and regulations; justice is about norms and values. Even though a decision is right according to sections and articles, it might be wrong according to a general view of justice. In such a case, specific expectations may be fulfilled while the unspecific are broken, which again may lead to erosion of trust in the legal system.

In these analyses of various trust processes and composition of expectations, it is a basic assumption that the generation or undermining of trust depends on whether expectations are sufficiently fulfilled to make the leap of faith or whether they are infringed. In one sense, this is an empirical question. It will vary whether people feel that their expectations are sufficiently fulfilled to make the leap of faith or not. If the gap between the expectations in a particular social situation and what is actually happening, is perceived to be too large, trust will be undermined. By specifying the elements in the expectations and the fulfilment of them, the model can contribute to a useful investigation about trust infringement and how to restore or create trust.

To sum up: relational trust develops or weakens in social processes when expectations are interpreted and transformed to action and interaction. Trust involves A's belief in B's motivation and willingness to comply with the obligations A attributes to her/him. To make the leap of faith, A assumes, on the basis of confirmation from B, that there is mutual understanding, that they share social scripts and that B will act in accordance with this. This means that trust is generated and maintained when expectations are fulfilled to a reasonable extent, and events proceed as expected.

As long as communication and interaction run as usual and in accordance with social scripts and expectations, mutual understanding as well as one's competence as a social actor will be confirmed.

9.8 Conclusion: Relational trust and social change

This chapter has focused on two elements in the social construction of relational trust; familiarity and composition expectations. Familiarity can be mediated, ascribed or acquired through interaction and experience, it can be an explicit, tacit, and taken for granted element in the pre-contractual basis for trust and expectations. Analysis of undermining and maintenance of trust demands a further exploration of expectations, their content and the extent to which they are fulfilled. To do this, a model of expectations was suggested.

Social change can mean that existing assumptions about how social situations unfold have lost their relevance, familiar patterns for action do not fit the situation, and that familiar norms and explanations are of less relevance. Mutual understanding may not be confirmed, and it becomes difficult to develop trust. In situations of social change, the bases for trust are changing.

In previous chapters the notion of 'open spaces' (Seligman 2000) was introduced. Open spaces are situations of social change and characterised by new action patterns, low predictability, and limited familiarity. In these circumstances the development of mutual understanding can be demanding. Open spaces means increased social risk and a corollary need for trust and trust generating elements. At the same time the basis for this is fragile or absent. Seligman (2000:97) observes this as 'more interstitial spaces with differentiation of

roles combined with less ability to impute familiar basis of strong evaluations’, and concludes that the actors’ self-reflexivity or group affiliations have to constitute the familiar basis for trust. Group affiliation resembles a pre-modern base for ascribed trust according to Seligman (2000). It may be so, but group affiliation and similar ascribed foundations for trust are forms of familiarity included in the bases for relational trust and are independent of the stage of modernisation. It is not unlikely that ascribed familiarity was more prevalent in pre-modern times, but it still plays a role. Increasing religious fundamentalism, growth of movements with charismatic leaders and mediated familiarity which may transform into ascribed familiarity are all possible indicators that ascribed familiarity is expanding, but this needs further empirical exploration.

Open spaces are an effect of social change and facilitate social change as they provide possibilities for role negotiation and development of new social patterns, they are spaces for innovation and transformation, and for development of new bases for mutual understanding. Reflexivity, including self-reflexivity, can be an element in the process of making the leap of faith. Reflexivity is a precondition for role negotiation, for developing mutual understanding and for reconstruction of a common basis for pre-contractual trust. Reconstruction of a common basis for trust can be described as ‘a reflexive ordering and reordering of social relations’ (Giddens 1993:17), which means that ‘social practices are constantly examined and reformed in the light of incoming information of those very practices, thus constitutively altering their character’ (Giddens 1993:38).

The continuous reflexivity and renewing of knowledge are elements in the process of social reproduction which cause changes in the familiar bases of trust and force a reconfiguration of trust bases. Empirically, reconfiguration of trust bases can be observed for instance as intense networking efforts, whether face to face or virtually; as disembedding and re-embedding of social relations. This social interaction is also about re-creation, clarifying and confirming knowledge and developing mutual understanding – and it is necessary to do this re-creation of relational bases for trust as continuous processes because of today’s social dynamics. Reflexivity and renewing of knowledge affect structural and relational bases for trust; in the long run these processes reshape the pre-contractual bases for trust. Mass media is one source for communicating a common universe of everyday knowledge, the growth of education is another platform for reflexivity, and cross-cultural encounters and religious groups also trigger debates about norms and rules for behaviour. Marketing and advertising and the global

entertainment culture are other sources for a form of common reflexivity that contributes to a reshaping of the common basis of what we take for granted in various situations.

Reconstruction of the social basis for pre-contractual trust is an on-going process and element in social change and renewal. *The creation of new bases for trust and the institutionalisation of these as normal practice are at the core of social change.* Open spaces then are preconditions for renewal and development. They are arenas and possibilities for developing new bases for familiarity, step by step and face to face, through social interaction. This means that the maintenance of social interaction, communication, and social arenas are critical in situations of social change.

If change is planned, such as for instance organisational reform, an element in the initiation of the change process should be information and communication about new strategies, visions, and aims, in addition to training, courses, and development of new formal structures and routines. Interaction and communication are necessary to develop new patterns and norms for action, and as a result new bases for relational trust are developed.

In the long run the new patterns are institutionalised and included in the pre-contractual basis for trust, thus becoming new taken for granted ways of acting and interpreting, new relations and routines for interaction, and perhaps new formal structures and sanctions. Through these processes new bases for developing trust are formed, and as a result the development of new expectations. A further investigation of expectations could tell how deep and comprehensive changes are. Minor changes and misunderstandings do not necessarily affect trust; it depends on individual thresholds for mutual understanding. Deep or very sudden changes may cause severe breakdown in trust. It is also possible that changes can increase trust; if the new pattern increases the fulfilment of expectations in a positive way. Reconstruction or strengthening of a relationship to a friend, a spouse, a colleague or an organisation can be examples of increasing trust.

Further analysis of the open spaces and the content of expectations in order to explore possible causes for undermining of trust can be done by combining the expectation table and various trust bases. Categorisation of expectations can tell whether the problem is related to pre-contractual, relational or structural trust bases, what form of familiarity that is at stake and the emotional depth and importance of it in the particular situation. This knowledge is critical

to restoration of trust, it directs the attention to which expectations that are at stake and have to be redefined.

To conclude; maintenance, weakening, and development of trust have to be analysed in relation to the kinds of expectations that are broken or fulfilled. Expectations are the key to mutual understanding, suspension, and the leap of faith. Using the expectation table facilitates a systematic exploration of the various elements in the trust process. This insight can guide processes of development, maintenance, and reconstruction of trust.

So far focus has been mainly on trust as a quality at micro level; the next chapter discusses the concept *structural* trust, which is about trust as a process on the societal macro level.

10. STRUCTURAL TRUST

*'The contract and its associated system of obligations and penalties, enforced through a legal system, could fill the gap where the trust naturally found in families did not exist.'*⁷⁶

– FRANCIS FUKUYAMA

The quotation above is a statement about replacing ascribed relational trust with structural trust. The development of formal structures which secure compliance through obligations, rules, and regulations is a major social innovation that opens up trust between strangers, and expands the possibilities for foreign trade, credit and long-time agreements; that is transactions stretching over long time and distance. In the modern society the use of contracts, rules, standards, regulations, and explicit formulations of duties and obligations is escalating. This thesis contends that the escalation of formalised arrangements reflects an increasing demand for structural trust.

The concept *structural trust* refers here to trust based on formal structures; on non-personal elements as a platform for the leap of faith. This form of trust is related to social macro structures and is referred to in sociological literature as *institutional based trust* (Zucker 1986, Lane 1998 & Möllering 2006, Bachmann & Inkpen 2011) and *systems trust* or *abstract trust* (Luhmann 1979, 1990, Barber 1983, Giddens 1993, Lane & Bachman 1996, Deakin, Lane & Wilkinson 1997, Sydow 1998 and Seligman 2000). These concepts have much in common with what I term *structural trust*, although the concepts are not totally congruent. Thus, in this chapter the development of structural trust is discussed and the distinctions between institutional based trust, systems trust and structural trust will be explored in more depth.

In the preceding chapters, mutual understanding is presented as a prerequisite for trusting; it is the platform for suspending doubt and the leap of faith. Structures are not mutual; they are at best, a means for one-sided communication. Mutual understanding involves a mutual acceptance and confirmation of the other's reading of the situation. When it comes to structural trust, the mutual understanding is at a deeper level and exists in the form of acceptance and structural legitimacy. It is a pre-contractual, contextual quality which has been

⁷⁶ Fukuyama 1995:63

institutionalised over time through socialisation and experience of stability, durability, consistency and transparency.

10.1 Structural bases for trust and modernisation

Formal structures rooted in legitimate, non-arbitrary power are bases for trusting the unknown and establishing trust between strangers.⁷⁷ Ideally, formal structures are firm and stable; they guarantee fulfilment of obligations, contribute to transparency, and can prevent abuse of power. A formal structure functions as an explicit promise in a broad sense; a contract or a law makes potential promises and obligations explicit and an infringement of these can result in sanctions. In relational trust processes an infringement of the social promise, which is the basis for trust, can lead to exit from the relationship. The threat of exit functions as a preventative against infringement of the promise. When it comes to structural trust, the element that assures the promise is the possibility of sanctions. If violations of laws and rules are not sanctioned, trust in the formal structures and system of sanctions is undermined, and by that, the structural basis for trust.

At their best, structures facilitate predictability and prevent arbitrariness.⁷⁸ Formal structures are the foundations of generalisation of trust, in which trust is based on a non-personal foundation. Structurally based trust facilitates predictability beyond the relational and interpersonal level and is a generalisation of trust from particularistic relations to universal structures. Development of social bases for generalisation of trust involves developing legitimate formal structures, and this is a historical process; that of modernisation. The exploration of structural trust as a concept and social process is therefore also a study of social modernisation and trust.

Two perspectives influence the exploration here of modernisation and trust: Giddens' study of *The Consequences of Modernity* (1993) which includes discussion of the disembedding of social relations; and Weber's studies of *General Economic History* (1995) and *Economy and*

⁷⁷ Technical structures such as for instance Internet, infrastructure for transportation and systems for payment, are additional bases for structural trust. These trust bases are a mix of trust in the technical elements and the social systems these bases are embedded in. Technical structures as bases for trust will not be further discussed as focus here is on formal social structures.

⁷⁸ At worst, they may result in rigidity and stagnation, but this is not the focus here.

Society (1978).⁷⁹ Weber's treatise on economic history and the relationship between economic and societal development is an analysis of modernisation, although he uses neither the term modernisation nor trust. I interpret these analyses as a history of the premise, key elements, and unfolding of modernisation as a social process which involves the transition from two to three social bases for trust; from pre-contractual and relational basis of trust to the development of a structural basis.

Weber's economic history describes the development of bases and processes for generation of structural trust, processes which are premises for modernisation and the growth of capitalism, which is a modern form of social and economic organisation dependent on bases of structural trust. The growth of capitalism is to a large extent congruent with the development of structural trust. I will go so far as to maintain that bases for structural trust are one of the premises for capitalism. This modern economic form is made possible by the development and spread of new social bonds; formal structures and social organisation which made long term investments more predictable and secure, and therefore trustworthy (Durkheim 1984, Collins 1982, Fukuyama 1995, Weber 1978, 1995).

The history of modernisation is also a story about transformation of particularistic bases for trust and the development of structural bases for trust. The decline of religious mysticism and hierocratic domination together with the rise of the Protestant ethics transformed the religious element in the pre-contractual basis for trust. The role of religion as a prevailing social script diminished. The development of national states as legitimate powers and development of codified law and rational bureaucracy as governing structures (Weber 1978, 1995) introduced formal structures as bases for trust. Structural bases for trust are characterised by properties that facilitate predictability and calculability such as stability, firmness, transparency, non-arbitrariness, and the principle of equality.

Transformation of trust bases and reconfiguration of trust patterns are key processes of modernisation and social transformation. These continuous processes are intensified in our time; a radicalisation of modernity (Giddens 1993). Social disembedding and re-embedding are processes which transform social bases for trust and lead to new configurations of trust

⁷⁹ These volumes are referred to as Weber 1978, as Max Weber is on the front page as author and the main body of text is by Weber, but the two books are edited by Roth and Wittich.

bases. Configuration of trust forms, that is the composition of trust bases, is related to social organisation rather than historical periods *per se* (Zucker 1986). This means that the configuration of trust is influenced by transformation of social organisation and not by the passage of time or historical epoch. Ascribed familiarity was for instance a prevalent basis for trust in the Western societies in the pre-modern times. This form of familiarity has decreased importance in the West, while structural bases are expanding. In tribal societies, ascribed familiarity is still a prevalent basis for trust, and structural bases are more or less absent. Development of structural bases for trust is related to the institutionalisation of legitimate governmental structures, a process still in its very early phase in some countries.

The relationship between social transformation and trust is not linear cause and effect; the hypothesis here is that *social change and transformation are about changes in the social bases for trust and in the social configuration of trust bases.*

In the rest of the chapter this hypothesis is explored through a discussion of the concept of structural trust, the relationship between various forms of non-personal trust and how modernisation has affected trust bases. The development of trust in money is used as an example of the relationship between social change and development of structural bases for trust.

10.2 Structural bases for trust and formal structures

Formalisation does not produce trust, but can replace it through contracts and thus create a form of predictability (Zucker 1986, Granovetter & Swedberg 1992). Contracts are weak and impersonal substitutes for trust (Mayer et al. 1995, Sitkin & Roth 1993). If contracts are substitutes for trust, this means that a contract is a self-contradiction when it comes to trust; either there is trust and therefore no need for a contract, or if there is a contract, it is an indication that trust does not exist. This will not be discussed further because the perspective of the thesis is somewhat different and establishes that formal structures are *bases for generalisation* of trust, not a substitute for it. Formal structures are a platform for suspending doubt and making the leap of faith. If there is any form of substitute, it is related to generalisation of trust, which is the process where personal and relational bases for trust are substituted by a structural base. Formal structures function as premises for taking the risk of trusting. They contribute to a guarantee about the fulfilment of the stated promise. Formal

structures are a premise for structural trust, but are dependent on a pre-contractual trust in formal structures as trust bases.⁸⁰

Even though the term *structure* is frequently used in sociology, it is rarely explicitly defined. It appears to be taken for granted that there is a common understanding of the term – such as when it is used in everyday language. As a scientific term meant to identify a particular form of trust, the term structure has to be further specified. For our purpose, a general specification of the term has been developed, based on sociological definitions. According to Collins Dictionary of Sociology (Jary & Jary 1995:662-63) the term *structure* is defined as 1) ‘any arrangement of elements into a definite pattern’, and 2) ‘the rules (or deep structure) underlying and responsible for the production of a surface structure (especially structures analogous to grammar)’. As *structure* is a very general term it can refer to various forms of structures. Of greater relevance here is *formal* structure, defined as ‘procedures and communications in an organisation which are prescribed by written rules’ (Jary & Jary 1995:239).

The defining structural elements are a ‘definite pattern’ and ‘formal rules’, elements that refer to the enduring, formal and explicit qualities of the structural base for trust. Thus, *structure* refers here to a definite, enduring, explicit pattern of rules or material elements that are socially valid and can be verified and sanctioned.

As mentioned above, ideally the structural basis of trust has three main groups of qualities. These are 1) legitimate power and possibilities of sanction, 2) some form of openness and transparency, and 3) stability and durability. These qualities are premises for generalisation of trust. The function of structural bases for trust is to reduce risk by clarifying expectations, guaranteeing fulfilment of them and creating predictability. Each of these elements will be further examined in the next section.

Sanctions, stability and expert systems

Formal structures are most relevant as bases for trust in situations with low or absent familiarity, in transactions between strangers and with high risk and/or low predictability. The formal structure facilitates generalisation of trust on non-relational foundations. Generalisation of trust is based on formal structures that refer to larger codified systems such

⁸⁰ Structures can also be used to legitimise distrust, fear, or terror, but this is not the subject here.

as laws, rules, regulations, standards, and expert systems. These structures transfer information; they clarify and make explicit rights, obligations, demands, measurements, and possible sanctions (Brunsson & Jacobsson 1998, Brunsson et al. 2012). They protect agreements and obligations (Barney & Hansen 1994). Clarity and explicitness in formal structures vary; a law for instance, can have several possible interpretations, while standards can be quite precise.

Formal structures change slowly and constitute a firm, non-relational basis for trust, independent of people (Deakin & Wilkinson 1998). Structures are valid beyond the individual level as long as they are based on legitimate non-arbitrary power, which ensures that laws, contracts, obligations, standards, and rules are upheld. When trust is based on legitimate formal structures, infringement of trust can be addressed by means of legitimate sanctions. Legitimate power is the social order that is held to be valid as the executor of power, and is based on traditional, charismatic or value-rational, legal authority (Weber 1978:36-38). Indirectly it is the legitimate power; usually the governmental power, which is trusted. This trust is upheld by the balance of power, democratic representation, open information and equality before the law. The development of legitimate power structures is the basic foundation for structural trust.

The possibilities of sanctions reduce the risk of transactions with strangers, and transactions over time and distance; sanctions contribute to stabilised interaction (Luhmann 1979). Formal structures as the basis for trust provide a guarantee which would otherwise have to be based on familiarity or relational proximity. The development of formal structures makes it possible to trust that agreements are worked out as agreed and this trust can be transferred and established between strangers. As Gambetta (1990a:221) points out 'contract shifts the focus of trust on to the efficacy of sanctions, and to either our, or a third party's, ability to enforce them if a contract is broken'. The risk for being sanctioned is a reason to keep the contract; it contributes to reduced risk and facilitates the leap of faith.

Expert systems are an expanding form of structural bases for trust. Expert systems presuppose an accepted and legitimate system of knowledge, but are difficult to control for a lay person. Trust in authority and expertise is based on a reliance on the existence of adequate internal control mechanisms built into the system (Luhmann 1979). Audit of business companies, development of global quality standards and certification of doctors are various examples of

this. Business auditing in Norway is a responsibility decreed by law and is an external control of the internal control systems in a company. This function as a structural base for trust, but the system is not 'water tight'. The auditors can also commit crime as shown by huge, global auditing companies that have been involved in fraud operations.⁸¹

Development of global standards and manuals of conduct such as ISO 9000, an international standard for quality management, are formal structures for securing trust. The ISO system has gained ground though and is continuously revised and promoted by national and European organisations for standardisation. Control of power and expert systems is not static; their status as bases for structural trust has to be continuously maintained. Standards presuppose a larger, universal basis and general acceptance of the standards. Today's world wide use of standards and reliance of internal security systems are facilitated by information technology which provides extensive possibilities for control, and control structures are necessary bases for structural trust.

The certification of medical doctors is another example of structural bases for trust and the dynamics between internal and external control systems. Medical work has two sets of formal structures as the bases for trust: the education system and governmental authority. Medical education is approved by the university system, but this is not sufficient to practice as a doctor. To be a doctor demands a license which is issued by governmental authority.⁸² The legal system adds additional structural bases for trust through sanctioning medical titles fraud. The function of these three bases for structural trust is dependent on trust in the governmental authorities; they are the final guarantee and have the power to sanction. If trust in the governmental authorities is low or absent, the structural bases for trust is weak, and relational bases for trust are probably more prevalent. In late modern societies standardisation and expert systems are expanding structures (Brunsson et al. 1990), they function as necessary bases for structural trust and the dissemination of these systems should be further explored empirically.

⁸¹ For example, the dismantled audit firm Arthur Andersen which was involved in the Enron scandal. A scandal that among others leads to the enactment of new legislation for audit companies – which is development of new bases for structural trust. (http://en.wikipedia.org/wiki/Enron_bankruptcy, retrieved 01.11.12)

⁸² The Norwegian Registration Authority for Health Personnel (SAFH)

The bases for structural trust presuppose an accepted and legitimate system of knowledge and a larger, universal basis such as a governmental body, which represents stability and durability, and provides assurance that premises and conditions will endure, and that promises will be met. Formal structures define power relations and super- and subordination; they contribute to a restriction of the arbitrary use of power and this facilitates predictability.

Finally, predictability is a key element of formal structures as bases for trust. Though qualities such as stability, openness, transparency, equality and possibilities for control, structural bases for trust generate a feeling of predictability and contribute to the reduction of risk. This makes it possible to make the leap of faith in non-familiar situations, to generalise trust from the familiar to the unfamiliar, illustrated by contracts about future obligations.

10.3 Generalisation of trust and disembedding of social relations

The process of moving trust from a relational and particular basis and basing it on formal, universal structures is a premise for modernisation as well as an effect of it. An exploration of the process of generalisation of trust is necessary to expand the insight in the relationship between trust and social change.

The two terms *system trust* and *generalised media of communication* are pivotal in Luhmann's (1979) analysis of how trust is generalised from close relationships to distant systems. The discussion of system trust is based on a communication perspective and on the premise that developing trust is about reducing complexity through selection. Truth, love, legitimate power, and money are examples of generalised media of communication. These media constitute structures of expectations and motives that simplify selection. Money, for instance, simplifies the process of valuation in exchange. Communication media are dependent on trust, and they contribute to maintain trust when they are activated. The use of money is an illustrative example of the circular relationship of trust between the generalised media and the use of it. If people don't use a particular currency because they don't trust its value, they contribute to diminishing the trust in this currency, and vice versa, the general use of money contributes to the maintenance of trust in it.

In simple and undifferentiated societies, trust is based either on personal relations or 'the authority of gods, saints or knowledgeable interpreters trusted as persons' (Luhmann

1979:48). Modernisation involves secularisation and social differentiation, processes that diminish social constraints and in doing so increase social complexity. An individual has limited capacity for information processing, and therefore a reduction of possibilities for selection is necessary. According to Luhmann (1979:48) ‘there are intrinsic connections between the complexity of the world on the one hand and the socially regulated processes for differentiating and connecting multiple selections on the other.’ A differentiated social order, such as the division of labour, is an example of processes that create complexity and necessitate the development of generalised media of communication and selection. These media reduce complexity and are founded on trust. But reduced social complexity is also the foundation for increasing complexity – reduction of some choices opens other choices, and this demands further strategies for reduction of the new complexity (Luhmann 1979). Trusted generalised media of communication are structuring expectations and patterns of motivations. They link one’s behaviour to the behaviour of others and to chains of selections made by others and this contributes to circulation of trust in a society.

How do these media become trusted and reliable as complexity reducing-devices, and what characterises the process of transfer of trust based on personal relationships to be extended to trust based on systems?

Time-space distancing

Transformation of trust is one of the hallmarks of modernity (Giddens 1993). Disembedding and time-space distancing are processes that involve *lifting out* and generalisation of trust from a particular to a universal basis. These are processes upon which Giddens (1993, 1993a) focuses, and the analysis of the relationship between time, space, and modernity provides further insights into the process of generalisation of trust.

A shift in the social ordering of time and space is pivotal to modernity (Giddens 1993). In Giddens’ perspective the question of order is reformulated to a question of ‘*time-space distancing* – the conditions under which time and space are organised so as to connect presence and absence’ (Giddens 1993:14). The separation of time from space, which is the introduction of uniform measures of time independent of place, is fundamental to the development of structural trust. I state that the development of structural bases for generalisation of trust is what makes the new order of time and space possible. According to Giddens (1993:16-17) there are three sources that contribute to the dynamic nature of

modernity: 1) the *separation of time and space*, 2) the *disembedding* of social systems and, 3) the *reflexive ordering and reordering* of social relations. Further, in the pre-modern societies:

'space and place largely coincide, since the spatial dimensions of social life are, for most of the population, and in most respects, dominated by "presence" – by localised activities' (Giddens 1993:18).

This presence and the localised activities are the foundations of relational trust, but:

'the advent of modernity increasingly tears space away from place by fostering relations between "absent" others, locationally distant from any given situation of face-to-face interaction' (Giddens 1993:18).

The 'fostering of relations' between "absent" others constitutes the development of bases for structural trust. Such bases are firm, durable, and widely accepted structures which facilitate predictability between strangers and over time.

Time-space distanciation is one of the core processes in modernity (Giddens 1993:17). The Middle Ages were characterised by a cyclical conception of time, and there was a separation of sacred and mundane time. In the perspective of eternity 'the customary earthly progression of past, present and future is illusory and irrelevant' according to Kumar (1995:71). Time was linked to activities and place, but the invention and diffusion of the mechanical clock from the late eighteenth century and the standardisation of calendars and time zones as a global date system in the early twentieth century provided a global, uniform system of time (Giddens 1993:18). The widespread diffusion of uniform time from the late eighteenth century is 'of key significance in the separation of time from space' (ibid: 17). This social innovation separates time from place; time becomes an element by itself, independent of place and activity. Separation of time from space means regarding time as an abstract unit independent of the local activity. Uniform time and standardisation of calendars are formal structures for the ordering and fixing of time. These structures facilitate global predictability and constitute a common basis for making contracts over time and distance. For instance flight schedules, appointments and global project work are based on standardised, universal time. Separation of time and space 'is the prime condition for disembedding' (Giddens 1993:20), it is a social innovation that provides a gearing mechanism for the rationalised organisation which now connects the local and the global in innumerable ways.

The separation of place from space is another social innovation. This allows the possibility of developing relations independent of face to face presence and local places are shaped by

processes taking place far away from them (Giddens 1993). One example is economic globalisation and the global industrial division of labour. Western companies have outsourced their production to Chinese industry with free trade zones, cheap labour and few regulations. In the West, this leads to industrial restructuring and the loss of jobs. The existence of small remote fishing communities in Northern Norway as well as huge American industrial cities such as Detroit and Chicago is threatened. The separation of place and space has major transforming consequences globally, both socially and economically.

Disembedding

Disembedding is a process that can shed light on how structural bases for trust are developed. Disembedding is ‘the “lifting out” of social relations from local contexts of interaction and their restructuring across indefinite spans of time-space’ (Giddens 1993:21), or even more precise ‘[...] their reticulation across indefinite tracts of time-space.’ (Giddens 1993a:18). *Lifting out* is the process of transferring trust from particular relations to a general, standardised, and universal basis. The process of *lifting out* affects trust in two ways: first, it is dependent on mechanisms for generalisation of trust, and second, it forces re-creation of the social bases for trust, this is processes dependent on reflexivity and relational processes.

There are two types of disembedding mechanisms, *symbolic tokens* and *expert systems*, and they are intrinsically involved in the development of modern social institutions (Giddens 1993:22). Disembedding mechanisms ‘remove social relations from the immediacies of context’ (Giddens 1993:28), which is accepting universal structures instead of personal relations as bases for trust. Symbolic tokens and expert systems are universal media of interchange, and two examples of formal structures that facilitate generalisation of trust among strangers. Expert systems as structural bases for trust could include both technical systems and professional expertise. Trust in the doctor is based on structural trust in the medical expert system, but after some interactions with the same doctor, one also may come to develop relational trust (provided that the doctor has fulfilled ones expectations).

The growth of contracts, standard rules, and regulations (Brunsson & Jacobsson 1998) is one indication of the strengthening of the formal bases for structural trust. EC laws consisted in 2005 of 80.000 pages, and the laws are considered as ‘Europe’s weapon of choice in its campaign to re-shape the world’ (Leonard 2005). Formal structures facilitates generalisation of trust; it contributes to further disembedding and increases the pace of modernity. Trust in

money is not based on trust in the relationship to the person with whom you are transacting, but on trust in the monetary system. The development of trust in the monetary system will be further discussed in a later section as an example of institutionalisation of structural trust.

Expansion of disembedding mechanisms is a presupposition for the development of modern social formations. They contribute to re-embedding, which involves re-creation and reconfiguration of trust bases. These processes are a key to understanding the dynamics of trust processes, a dynamic which often is described as erosion of trusting, c.f. the introduction of the thesis. The suggestion here is that what is perceived as erosion of trusting is, to a large extent about *reconfiguration of bases for trust and developing new bases*. This hypothesis will be further explored as a perspective on the relationship between trust and social change.

According to Giddens (1993:29) ‘all disembedding mechanisms imply an attitude of trust.’ This attitude of trust is established by development of formal structures that facilitate predictability, durability and stability; structures that contribute to suspending doubt and facilitating the leap of faith.

Reflexive ordering and reordering

The third element in the dynamic of modernity is the *reflexive ordering and reordering* of social relations:

‘The reflexivity of modern social life consists of the fact that social practices are constantly examined and reformed in the light of incoming information about those very practises, thus constitutively altering their character’ (Giddens 1993:38).

This is about trust. The development of structural bases for trust requires reordering of social relations and is a reordering of social relations; processes that demand reflexivity. This is the key to modernity and social change, a continuous re-embedding of social relations leading to reconfiguration of social bases for trust. The development of structural bases for trust increases social complexity by increasing the possibilities for action over time, distance and between strangers. As a result, taken for granted social patterns of interaction are changed. These are the pre-contractual bases for trust, and it is necessary to develop new patterns and bases for trust, processes that involve reflexivity and re-embedding of social relations.

The continuous reflexivity and renewing of knowledge are a part of the reproduction of social life. These processes remove us from the familiar bases of trust and force a re-creation of trust

bases. As pointed out ahead, empirically, we can observe this re-creation of trust bases as intense networking efforts face to face and virtually through the Internet and on mobile phones, as being about disembedding and re-embedding social relations. This social interaction is also about reconstruction, clarifying and confirming knowledge and developing mutual understanding. It is necessary to perform this re-creation of relational bases for trust continuously because of the dynamics of modern life. Not only do reflexivity and renewing of knowledge affect structural and relational bases for trust; they are also processes that reshape the pre-contractual bases for trust.

Mass media is a vital source for communicating a common universe of everyday knowledge, the growth of education is another platform for reflexivity, and cross-cultural encounters and religious groups also trigger debates about norms and rules for behaviour. Advertising and the global entertainment culture are additional sources for a kind of common reflexivity that contributes to reshaping the common social basis for what we take for granted in various situations. Time-space distancing increases the need for system trust, and the disembedding – re-embedding processes increase the need for personal trust. The trust bases and their relationship - the trust configuration - are under continuous change in times of social transformation. These processes demand reflexivity, which is an intrinsic process in today's society and a necessity for reconstructing the social bases for trust.

To sum up; the disembedding power of formal structures is related to their functioning as a guarantee of a non-personal trust that otherwise would have to be based on personal relationships. Structural trust functions as a premise for the separation of time and space, and functions at the same time as a bridge over the separation of time and space. *Development of bases for structural trust is a premise for disembedding and contributes to re-embedding; this promotes the development of new social relations.* Development of new social relations is about developing new bases for relational and pre-contractual trust. The separation of time and space facilitates disembedding, but separation of time and space presupposes formal structures as bases. These structures contribute to bridging the separation of time and space and thus facilitating separation. Or inversely: *Separation of time and space presupposes structures for bridging it.* This circular role of bases for trust is one of the characteristics of trust. Trust bases are a premise for development of trust and are generated and maintained through trust processes. Trust bases are both the input and output of the trust process.

10.4 Generalisation of trust and system trust

System trust and trust based on structures may appear as the same, but there are some analytical distinctions. From Luhmann's perspective the system is both a source of trust and an object for trust. I do not disagree in this, but hold that separate analysis of structures and system process generates further insight into trust generating processes.

Money is a relevant example of system trust, and Luhmann (1979:50) states that the trust in a system is based on trust in the functions of the system:

'Anyone who trusts in the stability of the value of money, and the continuity of a multiplicity of opportunities for spending it, basically assumes that a system is functioning and places his trust in that function, not in people'.

This is a description of the generalising effect, the transference of trust from personal to non-personal systems; 'Such system trust is trust automatically built up through continual, affirmative experience in utilising money' (Luhmann 1979:50). This system trust is dependent on 'constant feedback' but 'does not require specific built in guarantees' (Luhmann 1979:50). According to Luhmann, trust in the media means trust in the system, and as Möllering (2006:74), with reference to Luhmann, observes, 'the object of systems trust is indeed the system as such'. What, then, are the main requirements or characteristics of a system to function as a basis for trust? To discuss this question one has to decide the main functions of trust systems, which according to Luhmann (1979) is a reduction of complexity.

Reduction of complexity is about creating predictability, and therefore creating predictability is the main function of a trust system. By trusting, actor A decides to tolerate possible risk and 'the [trust] system substitutes inner certainty for external certainty and by doing so raises its tolerance of uncertainty in external relationships' (Luhmann 1979:27). Trust reduces uncertainty, enhances predictability, and contributes to reduced complexity and social risk related to the unexpected and unpredictable.

It is necessary to separate systems and structures when analysing the dynamics in trust systems. A system is not necessarily trust generating, it might as well have the opposite function. The Mafia, for instance, can be considered as a system of fear; violence is the media, and distrust – not trust – is the system effect, at least from outside the system. (I suppose distrust and fear are prevailing effects inside this system, too.) On the other hand, for

those on the inside of the system, the Mafia functions as a system of protection and a kind of substitute for the state ‘albeit in an erratic and limited fashion’ (Gambetta 1993).

Protection does not necessarily remove fear or produce trust. This industry of protection is first and foremost based on relational trust processes, such as family ties and kinship, not on legitimate formal structures. Instead, we have a system of relational trust combined with violence. This system functions as structural trust mechanism in particular geographical settings, but it is not a basis for structural trust. There are no legitimate sanctions, transparency or control of power. The system does not generate predictability, it is not based on formal structures and the use of violence is arbitrary – the mafia system is neither a source of trust nor an object of trust. The formal, structural elements in the system, hence the notion structural trust bases, are the analytical criteria that distinguish trust generating systems from other systems.

The historical development of trust in the means of payment and the monetary system is an illustrative example of transformation of pre-contractual bases for trust and development of structural bases for trust.

10.5 Development of trust in money and the monetary system

Rational calculation of value and budgeting are dependent on money as a stable means of exchange and value (Weber 1978), but money is dependent on general trust to be valid. Money as a medium for exchange is a social construction based on a symbolic contract between the issuer and the user. The premise is that the users have a general acceptance of the value and that this value is fixed and stable. On these conditions money can function as a measurement of value among the users. It expresses a simplified valuation in the form of precise and standardised numbers, but it depends on a general trust in that the money is reflecting real value. Trust in money cannot be taken for granted, in transition states, for instance, trust in money can be low.⁸³

⁸³ The Russian rouble is an illustration of this. In the early period after the disintegration of the former Soviet Union, in the early 1990s, Russians preferred foreign currency, particularly American dollars, a foreign currency that appears to be preferred among people in low trust states (Nordnes 1993). Low trust in the government affects the trust in money and the monetary system, and as long as the rouble is not accepted as an international, financial medium of exchange, its future value seems risky. It had rather low acceptance as a common medium of exchange even in Russia for a while. Concurrently with the stabilisation and growth of the Russian economy, trust in the rouble has increased. By preferring foreign currency, people disqualify their own currency; they express lack of trust by using *exit* in Hirschman’s terms (Hirschman 1970).

In pre-modern times, relational based trust was the prevailing form of trust. Exchange between strangers, over time, and over distance was dependent on personal relations and mediated by middlemen. Trust in money and the monetary system is dependent on a structural base, on legitimate formal structures that secure a stable value of the money. This trust is rather new and was developed throughout the nineteenth century (Galbraith 1975). The development of structural bases for trust in savings banks is an example of the parallel institutionalisation of formal governmental structures and structures for trust in banks, and this example is further discussed in chapter 12.

Money as means of payment – bad coins and low trust

The emergence of structural trust, or more precisely formal structures as bases for trust, is a modern phenomenon, closely related to the development of law and formal governmental institutions. Barter was the earliest form of trade and consisted of two simultaneous and reciprocal deliveries (Weber 1978), a process which presupposed only a minimum of relational trust. The legal protection of the barter process was related to the exchange of possessions and not as a process of mutual obligations or as a contractual relation. In pre-modern banking, for instance in ancient Greece and Babylon, letters of credit or banknotes were used to make payment over distance or to secure future obligations. These papers, as well as other means of payment, were based on relational trust, on personal relations between familiar partners and in particular transactions; they were not a medium for general circulation (Weber 1995).

The guarantee and basis for trust were the *relationship* between the partners, the early letter of credit was not an obligation mediated by notes and safeguarded by a larger formal structure.⁸⁴ Thus the early letter of credit system is distinguished from the modern system. In the modern system money is disconnected from relationships, it functions as a general medium for circulation of value and exchange. The use of money is an implicit credit relationship and contract between the state, as the issuing part, and the user of money (Simmel 2004). The state guarantees the value of the notes; a value that in principle should be based on the state's

⁸⁴ The 'letter of credit' is a financial document still in use. It is a bank guarantee of a payment, particularly for use in transactions with high risk, unfamiliar circumstances and in foreign exchanges in countries with weak legal structures. (As a curiosity it can be mentioned that the English term 'letter of credit' derives from the French word "accréditation" which means a power to do something, which in turn derives from the Latin word "accreditivus," meaning trust! Source: an unverified article at Wikipedia, 03.11.12)

assets. This general trust in a piece of paper is established through the emergence of stable governmental structures and maintained through the general use of money.

The main economic organisation in pre-modern times was the town economy. A town was a self-supporting unit with local money, ruled by a sovereign who controlled trade and taxes in the surrounding county (Weber 1995). Local craftsmen produced the coins, but coinage lords received the revenue. Money (coins) functioned only as a local means of payment in an economy characterised by face to face trade. Payment was also made in various locally produced assets and it was a challenge to decide equal value of different goods. This economy supported a culture of cheating and haggling, a mess of different local coins and frequent debasements, and a culture marked by low trust and suspicion (Weber 1995, Collins 1982).

The worth of local currency was based on the value of the constituent metal. Economic exchange was based on particular relationships and relational trust. Trade across distance and outside the local setting was based on personal relations or middlemen and money exchangers multiplied because of the necessity to exchange money into the local means of payment (Weber 1995). After the introduction of banks in Italy in the thirteenth century, banknotes were issued, but they were regarded as risky means of payment. In principle, the banks were responsible for the money they kept on the behalf of the customers, and for the value of the notes they put into circulation (Galbraith 1975). The circulation of notes was dependent on trust in the bank, a trust that was repeatedly undermined because too many notes were issued against the real assets.

As mentioned above, coins had a metal value, a *substance* value. Gradually a *functional* value developed independent of the metal or substantial value of the coin (Simmel 2004). Today's money is a medium of exchange and has a functional value, while the early money as means of payment was based on a substantial value. This difference relates to the distinction between media of exchange and means of payment (Weber 1995:241). The two functions of money are embedded in different social and relational structures. Coins and precious metals were used as payment, but only in particular relationships and for items with substantial value. The substantial value had from ancient times been subject to fraud and the amount of metal in the coins was gradually reduced. A consequence of this was 'that bad money always drives out good money' (Galbraith 1975:1); people kept the best money to them selves and circulated the bad money which had a reduced metal content. This indicates an absence of pre-

contractual trust in the stable circulation of good money. Experience showed that the good money disappeared, and this maintained the circulation of bad money. In the City of Amsterdam, which was a commercial centre, it was decided in 1608, to solve the problem of bad money by returning to weighing, and this influenced payment transactions all over Europe.

Development of trust in money is an example of an early form of non-personal and structurally based trust. Circulation of money as a general medium of exchange presupposes some formal structures with general validity. Trust in money has to be instituted through structural mechanisms: the development of a monetary system, a legitimate government that manages the monetary system, and stable and reliable organisations that mediate the money. Through these formal structures, goods and valuables can be quantified and made comparable through a common scale.

The development of a monetary system is a social innovation by which valuables can be specified in relation to a common scale and made comparable. This allows transactions over distances, time, and different markets, the key elements of capitalism. If the somewhat chaotic organisation characterising the pre-modern economy is taken into consideration, it is evident that development of predictability and stability are preconditions for economic growth. This is still relevant. Weak or absent bases for structural trust are characteristics of today's regions with weak economic development.

From substantial to functional value

The development of money as a universal medium of exchange is dependent on structural trust in its functional value. The development of the functional value of money is a social process that presupposes a general public trust in 1) the issuing body of money, such as the national bank and 2) that the value of the money is stable and fixed – that the value is generally accepted and that the value in transaction A is equal to the value in transaction B. Money rests on a public trust in the government as a representative of the economic community and that the rest of the community trust the money. The general acceptance of the value of money is the key to its usefulness as a medium for exchange between strangers, over time, and in credit relations. The acceptance and trust are linked to a sovereign or government; a legitimate structure which has the power to guarantee the stable value.

According to Simmel (2004:180):

The guarantee of the general usefulness of money, which the ruler or other representatives of the community undertakes of the coinage of metal or the printing of paper, is an acceptance of the overwhelming probability that every individual, in spite of his liberty to refuse the money, will accept it.'

This was one of the challenges in pre-modern economy – to develop a medium of exchange with a fixed and widely accepted value. Functional money opens for exchange and trade but is dependent on formal structures. There is therefore a close relationship between the development of public authority, laws, and government structures on the one side and the development of trust in the functional value of money on the other side (Simmel 2004, Weber 1995). The development of the florin, the Florentine gold gulden, is an early example of this process where substantial value was transformed into functional value parallel to the growth of economic power.

In the medieval town economy the florin was the first exact coin. After 1252 this coin had a fixed substantial value in gold. In a trust perspective, florins represented a trusted, stable value. The coin was issued in Florence, the occidental economic centre at that time, and the florin was an accepted value in commerce far beyond Florence (Weber 1995). The florin was an early medium for generalisation of trust. Trust in the florin was based on relational as well as early structural elements. The structural elements are the fixed gold weight (3.5 gram), the economic power of the Florentine merchant guilds, and the acceptance of florins in external trade.

The Florentine merchant guilds built their wealth on their right to collect tax and the florin was their only accepted means of tax payment. This created economic wealth in Florence and made the florin one means of exchange, but it was not a general medium of exchange. The florin had a substantial value based on a stable, fixed and controllable weight of gold, in contrast to the general use of coins which were often debased and had a contestable value. The stable and fixed weight gave the florin a special position as functional money, as the general monetary unit of wholesale (but not retail) commerce. Retail was based on different kinds of coins and values that were evaluated by agreement (Weber 1995).

Florence had strong merchant guilds; it was the wealthiest city in the occident and had the most intense capitalistic development in pre-modern time (Weber 1995). It is not unlikely that

one of the causes for this wealth was that the merchant guilds represented an early form of structural based trust which provided a generalised trust in the florin. The guilds had some similarities with structural bases for trust. The guild system is a network organisation that restricts the access to a particular trade. It was the predominant form of economic organisation in Western Europe prior to the industrial revolution (Deakin 2006). Guilds were social organisations established to make a distinction between insiders and outsiders in order to secure trade and craftsman skills in a particular area or city.⁸⁵ The distinction between insiders and outsiders (Fukuyama 1995:245) and between open and closed relationships (Weber 1978:45) is one way of distinguishing between the familiar and the unfamiliar, which is a decisive distinction in the trust process. The guilds worked to extend familiarity and the basis for personal trust among the members, but to exclude outsiders. Access to the Florentine merchant guilds was also access to a monetary system. In this way, guilds represented an intermediate basis for trust, a social form between a relational and structural basis for trust. Guilds had some of the qualities of structural bases for trust; they functioned as familiar basis for trust among strangers inside the trade. At the same time guilds had strong elements of relational and ascribed familiarity.

In summary, coins have a long history as means of payment in internal economies and in face to face trading. Money as a general medium of exchange is a modern phenomenon related to the development of social structures for generalisation of trust, from particular and internal relations to universal and external relations. Social change and changes in economic organisations are two aspects of the same process, and involves the development of new social bases for trust.

10.6 Development of structural bases for trust

Formal structures govern social action. The function of a structural basis for trust is to create predictability and by that, reduce risk. Even though structure directs action and ‘structure reduces the need for information’ (Luhmann 1979:37) this does not necessarily facilitate trust. Trust is contextual, to facilitate trust structures have to be embedded in a legitimate system of sanctions which safeguards the information and sanctions violation of the action directions.

⁸⁵ Guilds have similarities with the modern professions and the professional networks which now are global structures including the few and excluding most of us.

One example of this is the pre-modern cities which had their own laws with validity in each particular city and the formal structure facilitated trust in the particular context.

Law and bureaucracy

Laws are the basis for structural trust. According to Durkheim (1984:25) laws are necessary for the development of social organisation:

'In fact, social life, wherever it becomes lasting, inevitably tends to assume a definite form and become organised. Law is nothing more than this very organisation in its most stable and precise form.'

Law is a form of codification of social actions; it makes obligations and sometimes sanctions explicit. Through the division of labour, people are dependent on each other, and this opens up a wider range of relationships beyond the family, founded on contractual relationships (Durkheim 1984). Non-contractual social knowledge is transferred through family ties, tradition, and religion in the traditional society; these are the pre-contractual and relational bases for trust. Contracts define duties and rights and are durable. The firmness and constancy of contracts, rules, and other formal structures facilitate predictability and structural trust, provided they are embedded in predictable, rational legal authority – this is the key to formal bases for structural trust.

In pre-modern times, laws were practiced with arbitrariness and an element of superstition. Jurisdiction was a personal privilege of the patriarchal ruler (Weber 1995), and 'Those subordinated to this power had no rights against him, and norms regulating his behaviour toward them exist only as indirect effects of heteronomous religious checks on his conducts' (Weber 1978:645). Patrimonial power was diffused into the administration of justice through patrimonial monarchy. Laws *per se* did not prevent arbitrariness or facilitate predictability because the patrimonial state lacked political and procedural predictability (Weber 1978: 1095). Power was practiced arbitrarily and did not function as a basis for structural trust. Predictability is facilitated through stability, transparency, and absence of arbitrariness. These qualities are provided through laws embedded in legitimate, universal (non-particularistic) governmental structures, balanced control of power and predictable execution of power.

One of the hallmarks of modernity is the development of the nation state as a governing structure. The development and diffusion of bureaucratic administration is 'at the root of the

modern Western state' (Weber 1978:223). The bureaucracy is an administrative structure based on knowledge and universalism and is characterised by six main principles: jurisdictional areas ordered by rules; hierarchal organisation; written documents; office management; full working capacity; and the practising of general rules (ibid: 956-958). Bureaucratic elements facilitate stability, predictability, transparency and objectivity and they should be practiced through use of knowledge and equal treatment of an issue independent of personal relationships or social status. Diffusion of government bureaucratic principles provided formal and rational administrative objectivity which made possible the development of the principle 'equality before the law' and legal guarantees against arbitrariness (Weber 1978:979). This, I assert, is the development of formal structures as the bases for structural trust and an institutionalisation of legitimate power and sanctions as foundations of structural trust.

Predictability is important for the growth of capitalism and 'The tempo of modern business communication requires a promptly and predictably functioning legal system, that is one which is guaranteed by the strongest coercive power' (Weber 1978:337). Predictability is related to trust and calculable law is one of the six general premises for capitalism discussed by Weber (1995:276-278). Trust is not explicitly referred to, but several of the premises are bases for structural trust: rational capital accounting and calculation; absence of irrational limitations on trading; and calculable law. These elements are concurrent with elements of the modern bureaucracy, they are hierarchical, firm, rational administrative structures which are 'fully developed in political and ecclesiastical communities only in the modern state, and in the private economy only in the most advanced institutions of capitalism' (Weber 1978:956). The emergence of bureaucracy and rational capitalism is connected, capitalism requires the firm and predictable structures of bureaucracy and capitalism is a rational economic basis for bureaucracy (ibid: 224).

Without legitimate power structures there are no formal bases for the development of structural trust, neither nationally or internationally. This leaves the way open for the misuse of power by groups who possess power in an environment of minimal social organisation. There are several examples of this today, for instance in new states or states with weak or absent governmental structures, such as in Africa and The Middle East. Here terrorist groups and warlords rule through arbitrary use of violence, and structural bases for trust are absent.

Analytical distinctions

According to Zucker (1986), development of formal structures as sources of trust is the engine for economic development in the American economy during the period 1840-1910, a period of social and economic change. Zucker's perspective is to treat '[...] social variables as causes rather than consequences of economic change' (ibid: 54). Increased social heterogeneity caused by immigration and internal migration, combined with volatile growth, undermined the basis for pre-contractual trust; the taken for granted social scripts and 'the previously taken for granted social world was no more, undermining the interpersonal bases for trust' (Zucker 1986:55). The undermining of interpersonal bases of trust resulted in replacement of the informal, interpersonal trust by institutional trust and the spread of rational bureaucratic organisations, regulation and legislation as the most important formal trust-producing structures (Zucker 1986). The emergence of capitalism and modern bureaucracy contributed to the disembedding and re-embedding of social relationships (Giddens 1993).

Social change leads to undermining and transformation of existing bases for pre-contractual and relational trust and demands new structural bases for trust. According to Zucker this is a process of development of *institutional* sources of trust. In the rest of this section, Zucker's perspective on *institutional trust*, which appears to be the most widely accepted approach to non-personal trust (Möllering 2006), will be discussed in relation to the general notions *institution* and *structure*.

What is taken for granted is a pivotal element in the social bases for trust. My analytical contribution is to establish the taken for granted, that is the pre-contractual, as one particular basis for trust, as this basis has other qualities than the relational and structural bases for trust, and is also an element in these trust bases. Formal structures have a practical and a symbolic function. The practical function is to guarantee fulfilment of obligations and this is embedded in symbolic content. Taken together, these two elements form an institution. But in analysing trust as a dynamic process of social construction, reconstruction, undermining and loss of trust, it is necessary to make visible how different trust bases are affected by social change and how the social configuration of bases are affected. To gain insight in the trust process and to recreate trust, more exploration is necessary to determine whether trust is undermined because of infringed formal structures, such as contracts or laws, or whether there are changes in the implicit social contract and the pre-contractual bases, or if patterns in social interaction and the basis for relational trust have changed in unforeseen ways. This set of questions

focuses on processes other than exploration of institutional maladjustment or system dysfunction.

Pre-contractual, relational, and structural forms of trust are analytical constructs and ideal types that interaction as bases for trust. Structural trust, for instance, has pre-contractual elements and can be influenced by relational elements, but the prevailing trust base is the formal structure. In relational trust the basis is inter-personal relations, based on interaction and communication. The interaction and relationship is embedded in pre-contractual elements, but the main basis for this form of trust is the relationship. The pre-contractual basis is continually adjusted and maintained through relational and structurally based trust processes.

The three trust bases have different qualities, they facilitate trust differently, and the three forms of trust are to some extent developed through different social processes. Importantly, the three forms of trust are developed and influenced by social interaction and communication, and the prevalent development processes related to each of the three trust forms can be characterised differently, analytically. Pre-contractual trust is formed through socialisation; relational trust is developed through social interaction and structural trust by institutionalisation. The three different forms of trust have different consequences for social organisation, and to analyse the dynamic relation between trust, social change and social organisation, these three main characters of trust should be separated.

10.7 Trust and institutions

Structural trust refers to trust with a non-personal basis and institution based trust is a widespread notion for non-personal trust. The concept of institution has different meanings in various academic disciplines and is used in everyday language (Jentoft 2004:137). The variation in meaning of the concept and the diverse approaches to the notion institution make it challenging to separate process, meaning, and structure when analysing institutions and trust processes.

In Berger & Luckmann's (1991) discussion of the social construction of institutions, institutionalisation is a process of developing and legitimatising institutions. Institutions are built on a shared history and control human conduct by 'setting up predefined patterns of

conduct, which channel it in one direction as against the many other directions that would theoretically be possible' (Berger & Luckmann 1991:72), and institutions generally manifest in collectives.

In sociology the term *institution* refers to norms and habits, large organisations, and social formations such as marriage, education and economic structures. The term covers systems of meaning as well as formal and regulative structures. This form of trust has several terms, including system trust (Luhmann 1979, Lane 1998); trust in abstract systems or expert systems (Giddens 1993); and institutional trust (Zucker 1986, Lane & Bachman 1996, Bachmann and Inkpen 2011). These notions of trust have in common that they refer to non-personal bases for trust.

According to Zucker (1986) the term institutionally based trust refers to trust based on formal societal structures and has two forms: 1) person or firm- specific trust, which is based on prior socialisation in a subculture or based on professional roles, and 2) intermediary mechanisms that serve to reduce a potential risk and invoke trust, such as insurance policies and contracts. These trust forms refer to formal structures and expert systems as bases for trust, elements which are not made explicit by Zucker who also does not comment on the particular elements that facilitate this trust, such as stability and legitimate sanctions. According to Möllering (2006:54) Zucker does not provide 'a systematic treatment of what makes institutions trustworthy and how actors interpret and (thereby) come to trust in them'. However, her conceptualisation of trusting has inspired the composite concept of trust and will therefore be discussed more below.

Institutional and structural bases for trust

The concept of institutional trust is defined in the following way by Zucker (1986:63):

The third basis of trust, institutional, generalises beyond a given transaction and beyond specific sets of exchange partners. In order to generalise, "the locally produced" trust must be re-constructed as intersubjective, exterior to any given situation, and as part of the "external world known in common," objective in that they are repeatable by other individuals without changing the common understanding of the acts.

The definition is based on Berger & Luckmann (1991), and the re-construction of trust is termed institutionalisation by Zucker. The definition of institution based trust is quite similar to the process of disembedding; the lifting out of social relationships from local contexts and

restructuration across time or space (Giddens 1993:21), a process based on a formal structure and a common understanding and acceptance of the legitimacy of this structure. This is, in other words, a description of generalisation of trust as a social process. However, a description of a process is not sufficient to reveal the basis or ‘input’ of the process. The absence of distinction between process and input/bases of the process contributes to confusion about the term institutional trust.

Zucker (1983:2) makes a distinction between process and property of the term institutionalisation:

First, institutionalisation is both a process and a property variable; it is a phenomenological process by which certain social relationships and actions come to be taken for granted, that is part of the “objective situation”, while at the same time it is the structure of reality defining what has meaning and what actions are possible.

The distinction can be drawn differently. From the perspective of the thesis, institutionalisation is a process of social construction, a phenomenological process which includes the definition of meaning in a wide sense. Every social construction is embedded in a system of meaning. An institution is a durable system of meaning that defines possible action patterns. Institutions can be materially reflected as organisations or social systems, such as the monetary system or matrimony. Formal structures, such as laws and regulations, are the material sources and framework of institutions. Meaning systems and laws and regulations have different social qualities; meaning systems are emerging, whereas laws are passed, meaning systems are immaterial social constructions, but laws are written, codified knowledge. Meaning systems are maintained through socialisation and institutionalisation. Laws are implemented and institutionalised through practice. Structures can be altered by a stroke of the pen; sudden changes may happen as a result of seeing something in a new light (for instance as an effect of broken trust), but meaning systems change gradually. From the grounded theory based trust perspective *institutions as meaning systems* are the bases for pre-contractual trust, while the *formal structures* are structural bases for trust. The distinction between pre-contractual and structural separates process and property and provides further insight in social dynamic and trust processes.

The process of trusting and trust as a concept

The term *institutional trust* has two inherent challenges: 1) the term does not make a distinction between the social construction of trust – *the process of trusting* - and trust as a

quality – *the concept of trust* – and; 2) the often confusing and ambiguous content of the notion *institution*. Institution can refer to symbolic meaning and a significant practice, to an established organisation or corporation as well as a durable act, such as the institutionalisation of a practice. The multi-faceted content of the concept *institution* demands some further discussion.

Perspectives on institution provide some hints about the conceptual variety. An institution can be considered as an aspect of culture; as in ‘settled habits of thought common to the generality of man’ (Jentoft 2004:133, with reference to Veblen 1919). The term may refer to systems of formal rules and structures as well as systems of meaning, such as beliefs and values (Hofstede & Hofstede 2005). Institutions are ‘socially constructed, routine-reproduced programs or rule systems’, (Jepperson 1991:143), they ‘contain regulative, normative and cognitive elements or components’ (Deakin & Michie 1996:14), they constrain actions: ‘formal rules are an important part of the institutional framework, but only a part’ according to Dakin & Michie (1997:14 with reference to North 1993:20), and they are ‘patterned, internalised, normative role expectations’ (Seligman 2000:19). Lühiste (2006:477) discusses institutional trust in relation to political trust and defines institutional trust as ‘confidence that political institutions would not misuse their power.’ Lühiste refers to two competing sets of theories in this field; a cultural explanation, which intertwines trust in political institutions with generalised trust, and a performance theory, which considers trust in political institutions to reflect evaluations on regime performance in relation to citizen demands. This approach to understanding institutions focuses on the symbolic content of the institution and the institution as carrier of meaning.

Institutions are both formal structures and meaning systems. Institutions establish shared meaning as a precondition for social interaction and involve the totality of structures and meaning systems (Lane & Bachmann 1996). The conceptualisations refer to institutions as structures, culture and meaning systems, and in practice these functions are woven together, but in analyses of processes that undermine trust it can be useful to distinguish between institutionalisation as processes, institution as meaning systems, and institutions as formal structures.

Institutions are shared ‘reciprocal typification of habitualised action by types of actors’, and the typifications ‘are *available* to all members of the group in question’ (Berger & Luckmann

1991:72). In this perspective the social construction of institutions is a process of development and legitimatisation of institutions, they are built on a shared history and control human conduct by 'setting up predefined patterns of conduct' (ibid: 72). Institutions reduce social complexity by channelling action into existing social patterns and according to Powell & DiMaggio (1991:4) 'institutions reduce uncertainty by providing dependable and efficient frameworks for economic exchange'. This perspective on the risk-reducing functions of institutions has similarities with formal structures as bases for trust, but Powell & DiMaggio do not make any connections between trust and institutions.

In Selznick's (1984) classic analysis of leadership in administration, organisations and institutions are separated. Organisations are systems of formal rules and objectives, 'rational instruments engineered to do a job', while 'institution is more nearly a natural product of social needs and pressures – responsive, adaptive organism' (Selznick 1984:5). The distinction between formal structures and systems of meaning are made explicit in Powell & DiMaggio (1991:15), with reference to Meyer & Rowan (1991):

'Normative obligations [...] enter into social life primarily as facts' that acts must take into account. Not norms and values but taken-for-granted scripts, rules, and classifications are the stuff of which institutions are made. Rather than concrete organisations eliciting affective commitment, institutions are macro level abstractions, "rationalised and impersonal prescriptions".'

Institutions are, from this perspective, the social macro level elements which is included in the pre-contractual basis for trust.

The distinction between organisation as a formal, rational structure and institution as a wider social pattern, with structural as well as embedded normative and symbolic elements, has similarities to the distinction between the terms structural and institutional based trust. Here lies the key to the distinction between institution based trust and structural based trust. Institution based trust is a normative force and meaning system while structural trust functions to guarantee that a course of action will proceed as expected. Formal structures reduce a potential risk, establish predictability and facilitates generalisation of trust based on legitimate systems of sanctions.

The different meanings of the term *institution* can contribute to analytical ambiguity related to the concept of institutional based trust – does the concept refer to trust as a process or to

institutions as the foundation of this form of trust? If the focus is on the foundation of institutional trust, which of the institutional aspects are highlighted: a significant practice, an organisation, a set of rules, contracts, or a particular system of meaning? Perhaps the term *institution* is too ambiguous to be the only notion for non-personal trust. The ambiguity is related to the mixing of process, formal structure, and symbolic content of the term, and when used as an analytical approach to non-personal trust, further specification is necessary. A distinction between formal structures and meaning systems makes it possible to analyse the interaction between different social bases for trust – the configuration of trusting.

The suggestion here is that an analytic distinction between systems of meaning and a regulative order as basis for trust provides a better insight in the relationship between trust and social change. The term *structural trust* bases focuses on the key elements of non-personal trust: legitimate, stable, explicit, formal, regulative, or technical structures as basis for predictability, clarification of obligations, and possible sanctions. These elements are a platform for suspending doubt and making the leap of faith. Stable structures can cause tardiness, rigidity, lack of flexibility and low capability for change. In some settings, these structural qualities can eventually contribute to diminishing the trust potential of a structure, for instance as contempt for bureaucracy, but this is not the subject here.

The three terms; structural trust, systems trust, and institutional based trust have in common that they refer to non-personal trust and focus on different aspects of non-particular trust. Luhmann's notion system trust refers to trust in the function of a system, not in people (Luhmann 1979:50), and control of the system is a critical factor in maintaining trust. Institutional trust focuses, as the term indicates, on social institutions as the basis for trust, and refers to symbolic as well as formal elements. This creates the ambiguity of the term. Structural trust focuses on formal structure with possible sanctions and control functions. System trust is the trust an individual has in various social systems, a trust based on institutional – that is pre-contractual elements and structural elements – while structural trust is trust based on the formal elements in a system. The analytical differences between institutional and structural trust may only be considered as linguistic, as the structural basis for trust is embedded in an institutional context of pre-contractual elements.

Even though a formal structure is embedded in an institutional context, which to a large extent consists of pre-contractual elements, the concept structural trust makes visible the defining

element of this form of trust: that is the stable, formal structure which facilitates the leap of faith. The three elements of system, institution, and structure are necessary elements in structural trust. Stability is a precondition and constitutes structural trust, but is dependent on and embedded in a social system of power and legitimacy. These structural and system elements are maintained as social institutions; they include the symbolic level. Conceptualisation of the non-personal bases for trust is therefore a question of which qualities are emphasised to highlight the analytical purpose.

Further clarification

The ambiguity of the concept institutional trust can be reduced if the process of social construction of trust is separated from the different bases for trust. The social construction of trust is discussed in earlier chapters, as the development of mutual understanding, pre-contractual trust and relational trust and as socialisation and institutionalisation and construction of meaning (Berger & Luckmann 1991). Structural trust is related to rule systems, contracts, or law as basis for trust and by using the term 'structural trust' one avoids confusion of trust as *process* with the social bases for trust. This term solves some of the ambiguity problems related to the term *institutional*. The term *structural* is not unambiguous, but it is not a carrier of diffuse meaning or as heavy loaded with symbolic content as the term *institution*. The term structural makes it possible to distinguish between meaning systems and structures such as institution, organisation, and corporation.

On the other hand, some of the perspectives about institutions reflect on structures and rules as elements of institution, as in March & Olsen (referred in Jentoft 2004:138) 'collections of interrelated rules and routines that define appropriate actions in terms of relations between roles and situations', and according to Elster (1989:147) 'an institution can be defined as a rule enforcing mechanism. The rules govern the behaviour of a well defined group of persons, by means of external, formal sanctions.'

This definition is related to a particular purpose – an institution which 'seems to act, choose and decide as if it were an individual writ large' (Elster 1989:147). Institutions are rule enforcing when they sanction through by some kind of formal 'force' and induce particular patterns of actions. Rule enforcing institutions are based on formal structures and this contributes to blurring the analytical distinction between these two concepts related to the basis of non-personal, structural trust.

A formal structure, such as the law, as the basis for trust, consists of explicit and tacit elements; that is the text of the law and the systems of meaning embedded in the law. The explicit elements are the law and sanctions, while the tacit elements are legitimacy and taken for granted premises. Taken together, these elements can be characterised as the *institution* of the law. Which of these elements are more analytically important as facilitators of trust and establishing the platform for making the leap of faith, for instance in the consideration of future obligations? Explicit elements such as obligations and sanctions written in the contractual law will be important as visible elements can be negotiated and reflected upon, while the tacit elements are taken for granted; they are pre-contractual, and usually referred to as institutional.

The explicit and tacit elements in trust bases are concurrent with structural and pre-contractual elements in trust bases. This, then, leads to the conclusion that the term institution, and by that institutional trust, contains both structural and pre-contractual elements. These are systems of rules and systems of meaning; two systems that have different qualities when it comes to development of trust. The concept of institutional trust has to be separated analytically into structural and pre-contractual bases for trust. These two notions make visible different elements and processes of trust development. The difference is that the term *structural* focuses on the key elements of non-personal trust, and the term *pre-contractual* refers to systems of meaning. I therefore hold that the notion *structural trust* is somewhat less ambiguous than institutional trust.

10.8 Conclusion – structural trust a condition for modernity

To conclude this chapter, structural trust is a modern form of trust, dependent on a particular composition of formal structures. The possibility of securing trust in formal structures, such as law, contracts and organisations is one of the preconditions for capitalism and is closely intertwined with the development of the modern national state, the rational and entrepreneurial organisation of labour, development of bureaucracy, decline of feudal society, and rational ethics that displaced the sanctity of tradition. The shift in ethics is of fundamental importance to the development of the rational organisation of the economy. According to Weber (1995:313) this process is a:

'lifting of the barrier between internal economy and the external economy, between internal and external ethics and the entry of the commercial principle into the internal economy, with the organisation of labour on this basis'.

This is the modernisation process in a nutshell – a social change that transforms the social basis for trusting.

In the traditional feudal society, trust had a relational basis; it was a particular quality, and the pre-contractual basis for trust was relatively stable. Religion, traditions, and relations were important formative forces influencing the basis for pre-contractual trust. The growth of the modern state and purposive rationality as social organising principles at the sacrifice of religion introduced new elements in the basis for pre-contractual trust. It altered the significance of relational trust and created an opening for developing formal, structural bases for trust. Last, but not least, the emergence of a legitimate state based on democratic principles, law and justice, which acted predictably compared to feudalistic arbitrariness, made possible the emergence of structural trust, based on universal principles such as law and common rules (Collins 1982, Weber 1995). The development of formal structures as bases for non-personal trust, which is the institutionalisation of structural trust, contributed to increase social predictability between strangers and over time and distance. This is the foundation of the modern capitalism and modern social organisation.

The dynamics between the various social bases of trust can be analysed as the social configuration of trust – this is the interaction of different social trust bases. The separation of trust bases into structural, pre-contractual and relational bases provides insight in the main social forces in trust processes. These processes can be studied on different analytical levels and in various empirical contexts.

This theoretical part has aimed to do a sociologically grounding of an empirical, grounded theory conceptualisation of trust, and through this provide a further theoretical exploration of trust as a social phenomenon. The exploration is also a discussion of the composite concept of trust as an analytical tool for studying trust processes and the relationship between trust and social change. However, the analytical power of the concept has to be explored through empirical analyses. This is the focus of the third and final part of the thesis, which is an application of the grounded theory of trust in analyses of various empirical examples of trust configuration and changes in trust configuration.

Before entering into the empirical analyses, a quick revisit to the question raised at the end of the methodological part, about how the empirical grounded theory of trust can be integrated into sociology. On a more general level, this was a question about how grounded theory and sociology could be integrated and contributing to cumulative development of knowledge. At the end of chapter 5, the conclusion was the introduction of a model with four levels of integration. The theoretical part is a sociological exploration of the core elements of the composite concept of trust; mutual understanding, and the three social bases. Sociological theory is *integrated* into the concept as a theoretical discussion of the different conceptual elements pre-contractual, relational, structural and mutual understanding and this provides the theoretical grounding of the empirical grounded composite concept of trust. Is this work more than an integration of grounded theory into the sociological body of theory? The model in chapter 5 presented a fourth level, the *synthesis* where a grounded theory and sociology are merged into a new unified theory. The next and concluding part is an application of the grounded theory of trust in analyses of various examples of trust configurations and of changes in trust configuration related to social changes. In the final, concluding chapter 14, I will return to the question about synthesis discussed in relation to the empirical analyses.

PART
III
ANALYSES,
EMPIRICAL EXAMPLES
AND
FINAL REFLECTIONS

11. THE TRUST PARADOX – NEW CONFIGURATIONS OF TRUST BASES

‘Liquid life is a precarious life, lived under conditions of constant uncertainty’

and where

‘Trustworthy calculations are increasingly difficult to make...’⁸⁶

– ZYGMUNT BAUMAN

Trust and social change are fundamental sociological subjects of great relevance in late modernity. This is also a subject that demands further exploration with analytical tools that capture the dynamic trust processes. The third and final aim of the thesis is to explore the relationship between trust and social change through the application of the composite concept of trust as an analytical tool.

This final part of the thesis also aims to demonstrate the analytical potential in the grounded theory of trust developed in this thesis. The part is composed of four independent chapters. Each chapter analyses the configuration of trust bases and the relationship between trust and social change in various contexts, as different social transformation processes and with different empirical examples.

This chapter starts with a brief recapitulation of the grounded theory of trust followed by a discussion of the relationship between risk, modernisation and the trust paradox. Thereafter is a discussion of the exemplars of trust, social change and configuration of trust bases in various social contexts. The next chapter, 12, is a discussion of long-term social changes and the parallel transformation of trust bases, exemplified by institutionalisation of structural trust in savings banks. The following chapter 13, explores how social transformation of macro structures affects trust processes on micro level, that is how deregulation of saving banks is a deregulation of the trust relationship between bank and customer. Then the concluding chapter, 14, discusses trust and social change and ends with presenting the limitations of the thesis, contributions and with recommendations for further research throughout the chapter.

⁸⁶ Bauman 2005:1-2

11.1 Pre-contractual, relational and structural bases for trust

A recapitulation of the grounded theory of trust is useful as an introduction to this section which focuses on how the theoretical framework can be applied to analyse trust and social change in various empirical settings.

Trust is an individual feeling and a social quality; it is dynamic and evolves through social processes. Trust develops as a leap of faith into a condition of trust (Möllering 2006). *Mutual understanding* is a prerequisite for trusting; it is the trigger of the leap of faith, a leap that has an individual and a social platform. The individual element of mutual understanding is the propensity to trust, a psychological quality that is not the subject of further attention here.

To trust is to take the risk of presupposing that the interpretation of a course of action is mutually shared, that there is a mutual understanding which means that actors will behave predictably. If this mutual understanding is sufficiently confirmed, an actor takes the risk of trusting and makes the leap of faith.⁸⁷ Trust develops when mutual understanding is complied with as a social contract, a social contract that has pre-contractual, relational and structural pillars, respectively; taken for granted social assumptions, relational processes created through social interaction and laws, rules, and regulations backed with legitimate sanctions.

To explore trust as a process of social construction on micro level involves a study of the dynamics between individual constructions of meaning and input from shared social bases, and how these are transformed to mutual understanding. To study trust dynamics on macro level involves exploring the interaction – that is the social configuration – between the pre-contractual, relational and structural bases for trust. Social change is a transformation of the social bases for trust and in the configuration of trust; that is the interaction between trust forms in a particular social context. This and the next two chapters analyse these processes using empirical examples.

The three social bases for trust are common bases for interaction and foundations for development of mutual understanding. Without something in common, development of mutual understanding must start from scratch. The trust bases are broad analytical categories that refer to general dimensions of social life, the bases are maintained and re-created through

⁸⁷ The threshold of sufficient confirmation is an empirical question, as this will vary personally and contextually.

social interaction and are the foundation for developing expectations and mutual understanding. The social bases for trust are the building blocks of social life. They ‘secure’ expectations and trust, and enhance social predictability. Developing and maintaining trust under changing social conditions require the reconstruction and reconfiguration of these building blocks. Below is a brief summary of the trust forms and their bases and main characteristics.

Table 3 Trust forms

<i>Form of trust</i>	<i>Pre-contractual</i>	<i>Relational</i>	<i>Structural</i>
<i>Development:</i>	Socialisation, taken for granted	Process based, interaction	Institutionalisation, formalisation
<i>Social basis:</i>	Norms, action-patterns, social institutions, experiences, routines, information	Experience, interaction, ascribed or mediated familiarity	Formal structures, laws, technical structures, rules, professional associations
<i>Examples:</i>	Gender norms, role expectations, tacit agreements in a love relationship	Interaction in customer relations, group belonging, interaction among friends	Contracts, technical infrastructure

The social construction of trust is a dynamic interaction between perception and interpretation, construction of meaning and confirmation of mutual understanding. Relational trust bridges the barrier between oneself and the other. It is based on personal relations and reciprocity (Zucker 1986, Misztal 1996, Sztompka 1999), on face to face relations and small group relations where those involved know each other and share common rules and norms (Giddens 1993, Hart 1990, Luhmann 1979). Relational trust can also be based on one-sided distant relations, as ascribed or mediated familiarity. This interpersonal trust pervades social life and is constructed and re-constructed through social interaction and communication. Relational trust is the quality that probably is intuitively perceived and referred to as ‘trust’.

The basis for the development of structural trust is formal structures such as laws and contracts backed up by legitimate systems of sanctions, in practice this is the juridical system. The development of structural trust is woven together with the institutionalisation of a

legitimate nation state and in some cases supranational institutions. Lack of predictable legal structures and arbitrary legal practises result in weak or absent structural bases for trust.

Development of pre-contractual trust is a continuous process inherent in everyday life. Socialisation means acquiring a pre-contractual foundation for action and interaction, to attain the tacit social codes in a given context. Action and interaction implies confirmation or infringement of tacit or explicit expectations and the outcome of this strengthen or undermine pre-contractual trust. Small daily surprises or moments of unpredictability can – but do not necessarily – have long lasting effects on pre-contractual trust.

Pre-contractual trust is an element of structural and relational trust and permanent changes in these bases for trust involves transformation of pre-contractual elements. The legitimacy of structural trust, for instance the law, is maintained as pre-contractual elements, there is a taken for granted understanding (among most of us) that violation of the law will be sanctioned. Development of relational trust is dependent on a minimum of pre-contractual trust. Over time, the pre-contractual basis for trust will be expanded and strengthened through successful relational trust processes – processes where mutual understanding is developed and confirmed through interaction. Relational trust processes can be strengthened by structural trust, business transactions often start with personal encounters and interaction, the final agreements are written on paper as a contract that provides a structural frame for the relationship.

The three social bases generate trust forms which develop through different social processes and represent different social foundations for trusting. The trust forms are not mutually exclusive, but co-exist and can to some extent substitute for each other. To explore the relationship between trust and social change through the lenses of the grounded theory of trust means studying the social transformation and configuration of trust bases.

11.2 The trust paradox: social risk, modernisation and erosion of trust

The trust paradox was proposed in the introduction of the thesis as a metaphor for the relationship between trust and social change. The hypothesis is that social change does not necessarily lead to erosion of trust, but to transformation of the social bases for trust. In the phase of transformation there is an increasing need for trust as this is a situation marked by

risk and complexity, where the familiar social bases for development of mutual understanding and trust are under transformation. This is experienced as an erosion of trust, while at the same time there is an increasing need for it. This is the trust paradox. The trust paradox characterises a situation with *reconfiguration of trust bases*. The suggestion here is that these processes can easily remain undiscovered unless trust is explored as a process of development of mutual understanding based on common social foundations.

Mutual understanding is a key process in trusting and social change transforms the conditions for developing mutual understanding. Studies of trust and social change therefore have to focus on transformation of the social basis for mutual understanding. The following paragraphs discuss the relationship between trust, risk and modernity as an introduction to the empirical examples of trust and social change.

Risk and danger

Risk increases the need for trust (Luhmann 1979, 1990, Giddens 1993, Beck 1993). To trust means to act on a feeling of assurance, as if there is no risk, but risk is a social condition (Luhmann 1979). We live in *the risk society*, characterised by ‘distribution of “bads” or dangers’ (Beck 1993:3, Beck, Giddens and Lash 1994). There is social risk inherent in *the freedom of the other* and the increased freedom to choose in several arenas of life.

Risk evolved as a concept which is different from danger and as an element in the issuant modernisation (Luhmann 1990).⁸⁸ In the traditional society, danger and the unexpected had been apprehended as unavoidable, as *fortune* or fate and the domain of God. Secularisation and the rise of reason are consequences of modernisation; fate and belief in God was replaced by awareness of consequences, decisions and risk (Tourraine 1995). Modernisation increases the opportunities to make choices and the possibilities for taking the risk of trusting, and this generates new risks and increased social complexity (Luhmann 1990, Seligman 2000).

⁸⁸ The term modernisation refers to the process of introducing the new, while modernity refers to the state of being modern. In the thesis modernisation and modernity refer to an epoch characterised by social and economical development processes from the traditional to the modern society. There has been an extensive discussion about how to conceptualise our times: as modernity, late modernity, high modernity, or post-modernity. The discussion of terms, concepts, and perspectives on modernisation and social change is not a subject here, but for instance Lyotard 1984, Giddens 1993, 1993a, Lash 1996, Turner 1990, Rose 1992, Cook et al. 1992, Hassard 1995, Featherstone 1994, Habermas 1994, Harvey 1995, Kumar 1995, and Tourraine 1995 analyse these processes.

Risk is a negative possibility and not an objective fact, it is a 'possibility of loss, injury, disadvantage or destruction' (Webster 1986), but the perception of risk is a social construction based on consideration of possibilities and expectations (Luhmann 1990). Danger is unavoidable risk or situations characterised by dependency, low predictability, arbitrariness, and risk intensification. A series of new political, economic and environmental risks are emerging, that escape the institutions which ought to control and protect (Giddens 1993). This risk intensification and associated low-probability, high-consequence dangers resemble fate: even though the dangers are man-made, no one seems to be in control (Giddens 1993, Beck 1993). Decisions on individual level will hardly have any effect; there is no mutual understanding or reason to make the leap of faith. People therefore do not consider the danger, but rely on hope or confidence that those in power will act responsibly.

Risk involves the possibility to decide action as well as being a possible harmful event that might be avoidable depending on choice of strategies (Luhmann 1999). Assessment of risk and decisions about trusting are dependent on reflexivity, increased knowledge and possibilities for control of the outcome of the decision. The distinction between risk and danger can be formulated as a question of dependency and choice among alternative actions, for instance to choose *exit* (Hirschman 1970) to avoid a perceived risk. The modern *risk society* is characterised by expanding social risk and danger, this is a social condition which has as its corollary an increasing need for trust.

Modernisation and social risk

This increasing need for trust is an effect of modernisation; a sweeping force of transformational changes 'the sources of certainty on which life feeds' (Beck 1993:50, n1). Trust is contextual; every phase in societal development has its distinctive social and cultural characteristics which influence the basis of trust, the need for trust, the social configuration of trust and the social construction of trust. This does not mean that trust is historical; trust is related to social organisation, not to historical processes and the passing of time (Zucker 1986). But the social configuration of trust forms is historical in the sense that social organisation varies in different historical periods and historical events or development can affect trust configuration. Transformation of social organisation is also a transformation of the social bases for trust and their configuration. Social change transforms the conditions for development of mutual understanding.

Globalisation, time-space distancing, and the disembedding and re-embedding of institutions are driving forces of modernity (Giddens 1993). The rapid and technologically based pace of change, the global scope of change and the modern social institutions such as the political system of the nation state, the oil-based production systems, and the commodification of products and wage labour, are social processes that separate the modern from the traditional order (Giddens 1993). The expansion of new modern institutions and the scope and pace of change transform the social bases for trust, such as social practice, the relationships between members of society, values and world views. Social transformation has consequences for social organisation and social perception – the way things are done and the way we think about them. Social change affects the taken for granted understandings of social life and the understandings of *what* we trust, *where* we place our trust and *how* stable it is.

Change results in social relationships being lifted out of their existing contexts and the creation of new social patterns. The effect of disembedding through social change can be a feeling of loss and erosion of trust. Trust is not disappearing; a transformation of the social bases is not necessarily an erosion of social ties. Social change involves the institutionalisation of new social patterns, values and structures – disembedding triggers a process of re-embedding. Existing patterns for development of mutual understanding and trust are eroded, but are replaced by new ones, the social bases are re-constructed and re-configured, processes that increase the need for trust and demand reflexivity.

Reflexivity, the constant examination and reforming of practice in the light of incoming information about those very practices (Giddens 1993) coexists with the risk society (Beck 1993). Reflexivity is an acceptance of the premise that no knowledge is certain but any knowledge can be revised, an awareness which enhances a condition of instability and uncertainty. Reflexivity, differentiation, social change and increasing possibilities to choose roles and actions contribute to increased social complexity and create social risk. There is also a relational risk generated out of the other's freedom of action – one can never be entirely sure about predictions or expectations about the other – there is always a possibility of unexpected actions. It is difficult to take anything for granted; reflexivity questions pre-contractual social scripts and social change transforms common platforms for action and interaction, the familiar foundations for trust seem to erode. Transformation of trust bases generates a feeling of insecurity as if trust is eroding, which in turn increases the need for trust.

Even though reflexivity is a part of the problem by increasing the feeling of uncertainty, reflexivity is also an element in the solution. Reflexivity is a necessary element in the process of recreating social bases for trust; it is an element in negotiation of new roles and social scripts and in the process of reformulation of taken for granted truths. Through reflexivity and step by step development of new social practices, new pre-contractual and relational bases for mutual understanding are developed. As the familiar content of bases for trust erodes, new content has to be developed in common – in this way new familiar bases are gradually institutionalised.

The trust paradox

To conclude; the corollary of modernisation and the risk society is an increasing need for trust as trust provides a feeling of certainty in situations of risk and complexity; social change transforms the foundations of the feeling of certainty. On a societal level risk intensification creates a feeling of insecurity and erosion of confidence. This is enhanced by modernisation and rapid and widespread social transformation. Social interaction and the development of mutual understanding and trust are dependent on predictability. Modernisation introduces new risks, continuous changes and increasing social complexity that reduce social predictability and familiarity. These processes constitute an ontological insecurity with which the modern human has to cope. Modernisation increases the need for trust, at the same time the conditions for development of it are undermined. The social bases for development of mutual understanding and making the leap of faith are eroded by these social transformations.

This is the trust paradox – *the need for trust increases in parallel with erosion of the social bases for development of trust* – and it is tempting to conclude that this means that trust is disappearing, that the wells of trust are draining and the pumps cannot keep up.

A closer look at the trust paradox through the lenses of the grounded theory of trust nuances the picture. The assumed erosion of trust is not an erosion of social ties, but an effect of the growth of danger and diffused power. These processes erode confidence and the existential feeling of security, and the trust in authorities is diminishing. The perceived increasing need for trust is a demand for confidence, and the solution is the implementation of formal structures – resulting in an expansion of agreements, treaties, and systems of control. These are formal bases for trust developed to repair erosion of confidence.

In parallel with the erosion of confidence, rapid and widespread social transformation increases the need for trust to manage the expanding social risk and complexity generated by social change. The paradox is that the need for trust is caused by the same forces that erode the social basis for it, but I hold that this is a temporary situation. Social transformation involves reconfiguration of trust bases in situations of social change; the social foundation for development of mutual understanding is under construction and re-creation. This process generates a feeling of insecurity and erosion of trust; it is an erosion of existing social ties and social bases in parallel with the development of new ones. Trust as a social quality does not erode, but its social foundations are transformed. The process of reconfiguration of trust bases increases the need for trust, but does not mean that trust disappears as a social quality.

To return to the wells and pumps of trust metaphor presented in the introduction, the thesis suggests that the wells of trust are not draining away, but they are under continuous transformation and the pumps are keeping up, but they can be temporarily slow and require some maintenance.

The rest of this chapter discusses examples of how social change transforms the social configurations of trust. The next two chapters focus on how social change transforms the social bases for trust.

11.3 Configuration of trust

Trust is not a single, static quality, but a dynamic, transformative process. The various forms of trust are based on different social qualities; on tacit contracts, social interaction or formal structures, respectively. The interaction and relationship between the trust bases, that is the configuration of trust, are dynamic and the trust bases can reinforce or weaken each other. Configuration of trust is an analytical construction and difficult to measure quantitatively, but it can function as a reminder about what to look for to gain insight into the complex composition of trust forms and how these may change.

The configuration of trust can be studied in all kinds of social contexts, and it will vary in different societies and in different social contexts within any society. The examples discussed below address trust in love relationships, in cross-cultural communication, in Hawala banking

and trust related to terror in aviation. Trust configuration can also be examined on societal level and as a comparison of particular processes in different societies.

Love – relational trust and expansion of pre-contractual trust

On the individual level love relationships have elements both of social change and risk. Two single people gradually decide to become a couple, getting married, having children, borrowing money and buying a house; these are huge and lifelong obligations that demand strong and diverse bases for trust. A successful matrimony demands that the everyday interaction provides maintenance of trust rather than erosion of it. Relational trust building is a step by step process that endures in everyday interactions, and it is a strategy to develop trust in low trust situations and in situations requiring reconstruction of infringed trust. Development of relational trust can reconstruct and expand the basis for pre-contractual trust and institutionalise a new platform for mutual understanding.

A love relationship is one example of the dynamic of trust configuration. Initially a couple has a little common basis for trust. The platform for developing mutual understanding is the general pre-contractual trust each of them has in the other sex generally and of the first impressions of each other in particular. Through interaction the two gradually expand their common basis for mutual understanding. Initially they sufficiently fulfil each other's specific constitutive and background expectations, and mutual understanding is confirmed. Relational trust gradually develops and a common pre-contractual basis for trust emerges. As the relationship deepens, their common pre-contractual basis expands and they perceive that there is sufficient mutual understanding of diffuse, normative expectations. Minor backlashes can temporarily undermine the trust process, but continuous interaction hopefully maintains and contributes to growing trust.

The relational risk is perceived as low and the couple decides to marry. The wedding confirms the agreement of a (hopefully) lifelong relationship, and is based on pre-contractual and relational trust. Matrimony is a supplementary, structural basis of trust, but this base cannot substitute for relational and pre-contractual trust bases. The difference between a partnership and a marriage is the structural trust base (assuming that there are no formal agreements confirming the partnership). Whether this difference has any practical (or emotional) consequences, is an empirical question. Analytically, a marriage has an extended basis for trust, compared to cohabitation, and economic matters are better protected through the legal

constructs of marriage. In a love relationship the configuration of trust bases are transformed from the initially small common basis for pre-contractual trust to a rich composition of pre-contractual and relational bases for trust with a structural frame. Repeated interaction generates a relational basis for trust and expands and nuances the pre-contractual basis. Depending on whether expectations are fulfilled, the pre-contractual and relational bases for trust will expand or contract, while the structural basis for trust is a firm, stable relationship frame.

Trust and cross-cultural communication

The initial phase in encounters between strangers can be typically characterised as low trust situations in which the common pre-contractual platform for mutual understanding can be very small. For example doing business across different cultures can involve high risk as the initial common pre-contractual basis for development of trust can be low or absent.

Even though cross-cultural encounters are an example of low trust situations, this does not mean that there always is low pre-contractual trust in an early stage of cross-cultural cooperation. In to-day's globalised world, there might be cross cultural pre-contractual trust based on common modern experiences like the Internet, music, movies, literature, youth-culture or professional background. These modern elements are largely Western in origin, but are now spread globally, interwoven in the modernity, and can function as an initial, semi-structural basis for pre-contractual trust across cultures. These global icebreakers among youth are probably not sufficient as the sole foundation for cross-cultural pre-contractual trust, but can be a possible platform for dialogue and an initial step in the process of developing mutual understanding and eventually relational trust.

Cross-cultural interaction can be an encounter between different trust configurations and demands the development of new, common pre-contractual basis for mutual understanding. This has to be done step by step through interaction, creativity, and reflexivity (Möllering 2007). Interaction allows stepwise negotiation on how to define the common social codes, obligations and practices and develop a mutual understanding of what to expect of the other. Interaction makes it possible to adjust and explain and reach agreements, through this interaction partners develop a common relational platform, which in the long run can emerge as a common pre-contractual basis for trust. Successful interaction creates relational trust bases and eventually this may expand the pre-contractual basis for mutual understanding.

The absence of well-functioning structures for development of structural trust is a challenge when Western companies attempt to operate in cultures based on relational trust. One example is the different trust configurations in Russia and the West which function as a barrier against cooperation and development of trust (Ayos 2004, Ellingsen 2006, 2006a). Structural trust is a western alternative to relational trust in transaction between strangers or over distance. From a western point of view, the lack of common structural trust bases can be a challenge in economic transactions with Russian companies. Western companies have to develop relational trust bases with Russians, either as long term relational investments or through local friends or “trust agents”. ‘In Russia it is all about relationships’ as a Norwegian bank manager in a Norwegian savings bank in Russia said.⁸⁹ The westerners have to rely on the trust building capacity of their native Russian “trust agent” (Ellingsen 2006a). Lack of “trust agents” or the selection of untrustworthy trust agents together with little or no cultural competence were frequently mentioned as main reasons for North-Norwegian business failure in North-West Russia. Business between North-Norwegians and Russians was hampered through having no, or a low level of mutual understanding, differences in or absence of pre-contractual bases for trust and no awareness of different trust configurations.⁹⁰

As indicated in the Russian – Norwegian example the structural bases for trust have a different position in the two countries. In Norway and the West, structural bases for trust are important to secure trust in business agreements, in addition to pre-contractual and relational trust. In Russian business and in other Eastern countries, relational bases for are prevalent in business, for instance the Chinese *Guanxi*, a term which refers to connections or relations that facilitates business (Chang 2011). Social and economic modernisation are spreading to the East, but it is still too early to decide whether modernisation transforms the trust configuration in a Western direction, making structural trust bases of greater importance. In a study of active trust development in China, Child and Möllering (2003) recommend strengthening of structural bases for trust. Chang (2011) nuances the conception of *guanxi* and suggests that it is both dynamic and adaptable to changing environments, and a static social structure that maintain corruption and the unpredictable use of power. Institutionalisation of legitimate

⁸⁹ My translation of a quotation from the newspaper ‘Nordlys’, 15.10.13, an article about Norwegian banking in Russia.

⁹⁰ Unpublished interviews with Norwegian business actors in North West Russia. The material is from an initial pilot mapping in 2005-2006 of Norwegian - Russian business relationships and from a following up study of Russian migrant workers and Norwegian-Russian business relationship in Båtsfjord in Finnmark; June 2012.

structural bases for trust is very long term process and deeply interwoven in the social structure and culture.

An encounter between two cultures independent of structural trust bases would probably have better possibilities for developing mutual understanding in business contexts even though the initial pre-contractual trust will vary as a result of different cultural elements. It is likely that the pre-contractual basis for trust will be stronger when the trust configuration in the two cultures are similar, for instance in encounters within western culture.

On the other hand, national differences should not be underestimated, the pre-contractual basis for developing trust can be smaller than expected, and mutual understanding cannot be taken for granted, for instance even between Scandinavians. There are several examples of substantial business agreements that have failed because the interacting partners have paid too little attention to cultural differences. Business cooperation between large Norwegian and Swedish companies for instance, has failed more than once because of this. One example is the unsuccessful efforts to merge the Swedish company Telia and the Norwegian Telenord. According to Telenor group managing director and chief executive T. Hermansen, cultural differences were one element in the failure of the merger.⁹¹ Another example is the huge convenience chain Coop, which has failed twice in their attempts to maintain the Coop-Norden Group. The cultural differences among the three Scandinavian countries were one of the explanations of the failure.⁹²

To conclude, in cross-cultural interactions it is likely that the configuration of trust bases changes over time and that the pre-contractual and relational bases are expanded. Institutionalisation of pre-contractual bases for trust in cross-cultural relationships is long term processes and the time factor should not be underestimated. The role of structural bases is more difficult to manage. Structural bases for trust have to be legitimised over time through development of formal structures which need to be embedded in systems of meaning founded in long term experiences of non-arbitrary functioning of the formal structures.

⁹¹ <http://www.dagbladet.no/nyheter/2004/11/08/413831.html>

⁹² Personal communication with the members of the Norwegian Coop-management

Trust in bank – a question of culture

Trust configuration is taken for granted. In the Western banking system, structural trust bases are fundamental, in addition to relational trust. In other parts of the world, relational trust is the fundamental basis for economic transactions. In tribal cultures and traditional societies, relational trust provides the same kind of security as formal structures do in market economies (Fukuyama 1995, Hart 1990). One example of this is the Hawala system in banking.⁹³ The Hawala system is an example of a relational based trust system for transferring money over distance and between strangers. Hawala has old historic roots but is still active in South Asia, some regions of Africa and as a system for transferring money from immigrants in the West to their home countries. Money is delivered to the Hawala agent in one place and is withdrawn by an agent in another place; customer A trusts agent B who trusts agent C, therefore customer A trusts C. What is the main social basis for this trust? According to Zucker (1986) trust is based on intermediary mechanisms as an example of institution based trust. In the Hawala system the money is not physically transferred; the transaction is based on messages between the two agents, and agent B is mediating familiarity between customer A and agent C. There is no written agreement; the agent's loss of honour is the only sanction of fraud.

The Hawala system has relational and structural elements; it is based on pre-contractual trust in the importance of keeping good honour and relational trust in the agent, there is no formal, written agreements, but it is an institutionalised system for money transfer. Events such as major frauds, introduction of legitimate formal bases for trust in a majority of the areas using Hawala to-day and absorption of the Hawala system into existing formal banking systems, can provoke a reconfiguration of trust bases in the system. Introduction of structural bases for trust in this system as a supplement to the relational bases would mean a reconfiguration of trust bases. In the long-term, a development toward this is not unlikely, as there is a discussion about integration between Hawala and traditional banking, but in some Western countries the legality of Hawala is questioned. Integration of two different systems for money transactions is about more than routines and procedures; it will affect the trust systems and the

⁹³ The description of Hawala is based on Jost, P. M, Sandhu, H. S (undated) <http://www.treasury.gov/resource-center/terrorist-illicit-finance/documents/fincen-hawala-rpt.pdf>

social organisation of society. This is about the configuration between relational and structural bases for trust, and the legitimacy of relational versus structural bases.

Pre-modern Western societies had formal structures such as Roman law, Early German Law and Anglo-Saxon Law, but as long as the ruling powers were allowed to ignore or practise the law arbitrarily, the law did not function as basis for structural trust. Modernisation introduces formal structures for control and division of powers and mediates against arbitrary use of power. When formal structures contribute to reduce arbitrariness and facilitate predictability, they function as bases for structural trust.

Vicious circles of erosion of trust are examples of weak or absent structural bases for trust. On a macro level, mafia rule in Southern Italy and drug baron dominated cities in South-America are examples of societies affected by diminishing or lack of trust. In Southern Italy the legitimate basis for structural trust was destroyed during shifting regimes in the nineteenth century, allowing the mafia to expand its power (Gambetta 1990b), replacing structural trust with violence-based power. In some South-American countries and regions, drug barons perform similar roles as the mafia. Legitimate structural trust bases are replaced by arbitrary use of power and violence. Trust is absent. Trust is not based on arbitrary use of violence, but presupposes the possibility of demonstrating the absence of trust by choosing *exit*.

Terror and aviation – from pre-contractual to structural trust

The examples above discussed how changes in legal structures transform the configuration of trust bases, the examples below discuss the effects of increasing social risk.

Huge and totally unexpected catastrophes such as Utøya 22/7 in Norway and 9/11 in New York, the Asian Tsunami in 2004, the tragedy in Beslan 2004, the bombing of London Tube in 2005 and a number of school massacres, are reminders about the risk society in which we live, and these incidents are likely to have influenced the pre-contractual trust among those directly affected. The victims of these catastrophes probably no longer have the same taken for granted feeling of security in similar public spaces. Victims from Utøya, for instance, report about feeling unsecure and alert (Universitas 2012, Aftenposten 2011).⁹⁴ Their sets of expectations are different – at least for a while. As for the rest of us, to what extent pre-

⁹⁴ Personal conversation with victims.

contractual trust is influenced depends on proximity to the incident and the individual basic trust. A study of general trust before and after Utøya shows that it was strengthened immediately after the terror action, and then after a year, the level of general trust was back to the same level as before the terror (Wollebæk et al. 2012).⁹⁵

The study by Wollebæk et al. does not sort trust according to pre-contractual, relational and structural trust bases. If the findings are grouped into these bases, data indicates that relational and structural trust were strengthened just after the terror and normalised one year later, except for the trust in the police, which has declined 8 percentage points from April 2011 to August 2012. There is a reduction from 77 to 69 percent of respondents who place full or quite high trust in the police.⁹⁶ The decrease may be an effect of the report from the 22nd July Commission of Inquiry, presented in August 2012, which concluded that, the police and the authorities could have done a better job. For instance, a public opinion poll conducted on 14th August 2011 reported that 55 percent of the informants felt that their trust in the police was *not* undermined after Utøya, while 39 percent said that their trust was either undermined (29 percent) or strongly undermined (9 percent) (NRK).⁹⁷ The study by Wollebæk et al. (2012) conducted immediately after Utøya, in August 2011, reported that 81 percent of general public respondents had full or high trust in the police. The two studies focused on possible trust effects after Utøya, they posed different questions, but seen together the surveys indicated that trust in the police is undermined a year after Utøya. However, this is not enough to influence on the general level of structural trust. One year after Utøya, the level of trust in societal institutions is about the same as one year before Utøya (Wollebæk et al.).

Norway is a society with high levels of trust (Skirbekk 2012, Wollebæk et al. 2012). Norwegians trust their authorities and democratic institutions; there is a high level of structural and pre-contractual trust. Feelings of fear and worry relate to how risk and danger are perceived within the context of pre-contractual trust. The Utøya terror eroded the victims' pre-contractual basis for trust, and the study by Wollebæk et al. (2012) indicates that incidents of this nature influence the level of pre-contractual trust among the rest of the population too. Almost 25 percent of the population fears new terror attacks after Utøya, and Wollebæk et al. (2012) concludes that there is an increase in fear and diminishing feeling of safety, in particular among the young, and that there is an increasing acceptance among the population

⁹⁵ The study measured attitudes to trust at four points in time; April 2011, August 2011, May 2012 and August 2012 (Wollebæk & al. 2012) and the sample is from Internet users.

for intensified surveillance. The Utøya terror seems to have caused an erosion of pre-contractual trust and a demand for strengthening of structural trust bases.

Bases for relational trust seemed to have expanded immediately after the terror. Prime Minister Jens Stoltenberg did an outstanding job in comforting the whole nation. He responded to the terror – not with claims about hate and revenge – but with request for more democracy, openness, cohesion and dialogue. The Norwegian people responded with flowers and a focus on love and cohesion. There was a huge mobilisation all over Norway – people went to churches, comforted each other on social media such as Facebook, and went in torchlight processions to express sympathy and solidarity with those affected by the terror. Through these reactions, relational trust was maintained and expanded in the early phase of the catastrophe.

The Utøya terror attack reduced pre-contractual trust, but the collective Norwegian reaction – the relational trust processes – may have contributed to reducing the damage to pre-contractual trust. This is not an obvious outcome; the 9/11 terror attack in New York followed another course. The Americans loss of pre-contractual trust has been continuously reinforced by the rhetoric of hatred used by President Bush and his “we’ll hunt them down” philosophy, the American *war against terror* and the resulting global expansion of security measures and military interventions. This can indicate that pre-contractual trust is eroding at the same time as structural trust bases expand in the American context. The picture is not unambiguous, there are indications that the 9/11 event has encouraged increased political and social engagement among American middle class youth (Sander & Putnam 2010) – this suggests an attempt to expand pre-contractual and relational bases for trust.

Airline terrorism is an example of increasing risk (real or assumed) and expansion of structural bases for trust. In the pre-terror age of aviation, entering a plane was not much different from taking the bus when it came to control of departing passengers. After some terror attacks, which violated the pre-contractual trust in airline security, authorities, in particular those in America, have implemented more stringent security measures which rapidly spread globally. Even the smallest airport in remote areas has now adopted similar

⁹⁶ Figure 5, 6, 8 (Wollebæk & al. 2012)

⁹⁷ The survey had 999 informants and was conducted by Norstat on behalf of the Norwegian Broadcasting (NRK).

security measures towards the mainly local travellers, as they have on J.F.K airport in New York. The security measures have an explicit and implicit function. The explicit function is to raise the level of security by controlling and removing potential dangerous items. The implicit function is to restore trust in airline security. This restoration involves substituting the former pre-contractual trust with structural based trust mechanisms such as rules and regulations and formal control procedures.

The trust configuration in aviation is changed; the pre-contractual trust seems to have diminished, with a compensating large expansion of mainly structural measures. Aviation is an example of an industry with a comprehensive system for structural trust. There is a huge set of technical rules and regulations to secure the technical quality and safety standards of air transport and to secure a basis for structural trust in the functioning of the plane. The intensified control of passengers is an institutionalisation of structural bases for trust as a replacement for the loss of pre-contractual trust caused by fear of terrorism. Structural trust is dependent on a legitimate, functioning system that can apply sanctions if the rules are broken. This system is the nation state or super national bodies or agreements, if there are no sanctions, there is no trust. Airports without adequate security systems are not used and air companies which do not comply with the technical rules and requirements are banned.

Trust is a dynamic quality. In the long term the new structural trust elements will probably be incorporated into the pre-contractual basis for trust. The configuration of trust bases are different, but (hopefully) the feeling of trust is restored when new social bases are developed. Pre-contractual trust will be strengthened if there is no increase in the level of threats. One effect will be that if passengers arrive at an airport without the traditional security measures, they would probably feel some uneasiness (at least the more anxious of us) as there is no familiar basis for structural trust. The absence of expected measures for structural trust may result in some passengers choosing *exit* and not using the airport, if possible.

11.4 Conclusion: a necessary threshold of trust?

Does the term trust configuration bring any new insight? The contribution of the term is that the analytical focus is directed on trust as a dynamic social process. Trust configuration means that the erosion of trust is not the same as the disappearance of trust, but that existing bases for trust are transformed and new configurations are emerging. In-depth studies of these

processes provide insights into social production and reproduction, and erosion and transformation; an insight that enhances the possibilities to develop and repair trust.

Trust bases interact with each other; weak pre-contractual trust can be supplemented by step by step development of relational trust; reinforcing structural trust bases can expand pre-contractual trust. Insight in trust bases and their configuration is an important step in systematically developing systems and procedures to establish common bases for mutual understanding and trust, processes which are necessary to maintain and restore trust.

Changes in the configuration of trust bases at the societal level are long-term processes; social change transforms trust bases and the common platforms for mutual understanding. A minimum of trust is a prerequisite for social relationships and holding together a society or social organisation. If common bases for trust are eroded, new bases have to emerge to maintain social structures. Does this suggest that declining trust is not a challenge, that trust is not eroding, or is it only a question of reconfiguration of trust bases? The answer is no. Reconfiguration of trust bases is one alternative; breakdown of trust and *exit* are other alternatives to trust. Social change means that familiar social patterns cannot be taken for granted and pre-contractual trust comes under pressure and erodes. Over time, face to face interaction recreates relational bases for trust and is a platform for negotiating and correcting erosion of trust. Expansion of structural trust bases and increasing relational trust processes is a response to declining pre-contractual trust. If structural and pre-contractual trust bases are expanding at the sacrifice of relational trust bases, it is likely that exit becomes easier, that social ties are dissolved – and this is one possible path of development.

The main conclusion of the configuration hypothesis is that trust is a dynamic social quality under continuous transformation; a process which generates a temporary feeling that trust is eroded. Trust does not necessarily erode, but its social bases are reconfigured.

The next two chapters elaborate on two empirical examples of new trust bases and new trust configurations. The first example analyses the institutionalisation of structural bases for trust in the savings banks. This is not intended to be a bank or economic history, but the bank is an example for exploring how long-term social change influences configuration of trust bases. Banks are also the empirical focus in the second example which discusses how a particular

event, the deregulation of savings banks, also turned out to be a deregulation of the relationship to the customers and a reconfiguration of trust bases.

12. THE INSTITUTIONALISATION OF TRUST IN NORWEGIAN SAVINGS BANKS 1814 – 1924

*‘The nature of modern institutions is deeply bound up with the mechanisms of trust in abstract systems’.*⁹⁸

– ANTHONY GIDDENS

Trust in the money and the financial infrastructure is a prerequisite for a well-functioning economy. This trust is developed and maintained through long term social transformation processes and interaction between pre-contractual, relational and structural trust bases. This chapter discusses the development of structural and pre-contractual bases for trust in Norwegian savings banks. The focus is on the dynamic between historical development and trust processes. The aim of the chapter is to demonstrate the composite concept of trust as an analytical tool for studying the dynamics between social changes, in this case, the development of savings banks, and trust.

12.1 Historical context

Norway became independent from Denmark in 1814. Development of a stable currency, reliable banks and a functioning monetary system were among the prioritised tasks for the new nation state, in addition to establishing a governmental administration and laws. As pointed out in chapter 10, the issuing and circulation of money have to be embedded in a legal framework administered by a legitimate power and state apparatus. This is the foundation of structural trust in money and the monetary system as well as in banks and the banking system.

Banks are cornerstones in the monetary system; their social task is to circulate savings into credit and to manage savings in a secure way. Trust is a prerequisite for attracting capital, for circulating money over distance and providing long-term credit. Banks are businesses, they have to gain economic surplus and make professional credit risk judgements as risk management is the core of banking. A global study of bank failures concludes that one of the most common reasons for failures is poor credit risk judgements and mismanagement (Heffernan 1996). The history of savings banks development in Norway supports these findings; bad risk management has been a major cause of savings bank crises since the

98 Giddens 1993:83

foundation of the first savings banks in 1822 (Nordnes 1993).⁹⁹ Unless there is a legal framework that control the banks and secures the customers' deposits, major loss can cause bank crises that undermine the general trust in banks and in the banking system. The fear of loss of general trust in the banking system has been a driving force for bank regulations and development of a legal framework embedding the banking system. The legal framework provides protection of customer capital, reduces risk, and secures trust. The institutionalisation of laws was an important element in modernisation and building of the young Norwegian national state. Inherent in this process is the institutionalisation of formal structures as bases for generalisation of trust.

The institutionalisation of structural bases for trust in savings banks and the gradual development of a banking system are relevant examples of the relationship between macro structures and micro actions, of how trust in a particular bank and the banking system is dependent on a legal framework; and how the institutionalisation of structural bases for trust in banks co-evolved with the Norwegian governmental system. These processes involve the transformation of existing social bases for trust and the development of new pre-contractual and relational bases for trust.

Control and trust effects

The introduction of statutory provisions related to the financial activities of savings banks can be analytically separated into different aims; these are *control*, *trust* and *regulatory aims*. As these are analytical categories, there are no sharp distinctions between them, they are not mutually excluding, but they refer to different prevailing effects. The focus in this chapter is on control and trust effects, but first a few comments on regulatory aims. Regulatory aims were the main reasons for introduction of statutory provisions and regulations in banking in the post-war period 1945-1985 (Nordnes 1993). Regulatory aims were, for instance, politically decided changes in liquidity conditions for regulating supply and distribution of credit. Even though these regulations had control effects and probably also trust effects, the main aim was to regulate the circulation of money and allocate credit in accordance with political goals.¹⁰⁰

⁹⁹ Three chapters in my master thesis *Konto for tillit (Nordnes 1993)* goes thoroughly into how bank crises were a drive for institutionalisation of structural bases for trust, and this chapter is based on elements from that discussion.

¹⁰⁰ See chapter 13 for further discussion of this.

In the first hundred years of banking, regulations were introduced to control the operation of banks and secure the customers capital. This had both control and trust effects; prudential measures that provide change in liquidity provisions to safeguard customer's funds is one example of this. Several regulations of the financial system have control and trust effects, and long-time transformations in the financial system can be perceived as interaction between control and trust effects. Bank crises infringe trust, so control and regulations are imposed and the long term effect is increased trust.¹⁰¹

The interaction between financial crises and the introduction of formal structures to control banking and the development of trust will be explored in this chapter. The chapter analyses the institutionalisation of trust in Norwegian savings banks and the emergence of banking from a historical perspective and in two periods. The first period is from 1823 until 1887, that is from the foundation of the first savings bank in 1822 until the first major amendment of the Savings Bank Act was made in 1887. The second period is from 1887 until 1924, when the next formative amendment the Savings Bank Act took place.¹⁰²

The focus is not on the historical details, the aim is to explore institutionalisation and transformation of trust bases from a historical perspective through the composite concept of trust as an analytical lens. The analysis is an interpretation of historical processes and using them as data for understanding trust processes; that is how societal development transforms the social bases for trust and the configuration between structural, pre-contractual, and relational bases for trust. The empirical data are economic history, general bank history, the history of some Norwegian savings banks, the Savings Bank Act and the literature discussing this law.¹⁰³

¹⁰¹ See chapter 13 for further discussion of this.

¹⁰² The terms bank and savings banks are hereafter used synonymously. Commercial banks have firms as their main customers and the Savings Bank Act is not a legal framework for these banks. The customers referred to in the thesis, are personal customers and not firms.

¹⁰³ See appendix one for further discussion of selection, collection, interpretation and discussion of reliability and validity of data.

Precursors of structural bases for trust

Trust is a challenge in the development of a monetary system with notes and coins that have a functional and not substantial value. In the initial phase of the development of a Norwegian monetary system the aim was therefore to provide stable money with the value linked to silver. The Norwegian national bank, Norges Bank, was established in 1816 and based on a silver fund, paid by means of the so-called “silver tax”. There was a fear of foreign speculation with the silver fund, and to strengthen the fund the government demanded that customs had to be paid in silver (Bergh et al. 1983). Even though the aim was to increase the silver fund, this had probably negative trust effects, indicating that the government did not trust its bank notes. The silver fund was meant to guarantee the value of the bank notes from the national bank, which, at least in theory, could be redeemed in silver, but the bank notes were in practice non-redeemable. The rising of the fund proceeded slowly and one reason was probably that there was low trust in the non-redeemable bank notes.

Towards the end of the 1820’s the state administrative apparatus was strengthened and the authorities started systematically stabilising the exchange rate of the ”spesidaler” (the main Norwegian coin). The Norwegian notes had low exchange value, but as the Norwegian economy became more predictable, it gradually gained trust abroad and the country’s currency became internationally convertible and held a stable rate of exchange. In 1842 the duty to redeem was opened and the value of the “spesidaler” was pegged to silver. Norway had now achieved a stable monetary unit and in parallel with this a state administrative apparatus had been instituted (Bergh et al. 1983).

The development of a well-functioning monetary system was a demanding process according to Bergh et al. (1983). One challenge was the development of bases for trust. It is hard to decide in retrospect whether there was a pre-contractual trust in the new Norwegian state and new organisations such as the national bank. Probably there was some initial trust, as an effect of the new independence. The silver fund was one attempt to secure the functional value of money in substantial value and this can be regarded as a precursor of structural bases for trust, but as the bank notes was non-redeemable the trust effects were low. This meant that the most prevalent basis for trust in the money was probably a belief in that the national bank could guarantee a stable value.

The new nation gradually began to establish itself as an independent legitimate state power and the initial phase of the administrative nation building process was settled in the first half of the 1840s, with lawyers at the forefront (Berg et al. 1983, Slagstad 1998). This process developed a foundation for structural trust in the Norwegian monetary system. The development of a state administrative apparatus, institutionalisation of legislation and the opening of the silver fund can be regarded as the bases for institutionalisation of structural based trust in the monetary system. Structural bases for trust creates predictability, it reduce the risk in financial transactions over long distances and between unfamiliar partners. Long-term credit and calculations became less uncertain when the partners could trust that the value of a “spesidaler” remained stable from one day to the next. Stable and convertible currency simplified the mutual valuation and opened new opportunities for trade, investments and cost accounting.

A well-functioning monetary economy is also dependent on the existence of financial institutions for circulation of money between savers and investors, and a few years after 1814 the first savings banks were established.

12.2 The early savings banks – social or financial institutions?

Access to and circulation of capital was a challenge in the new nation state. The wealthy had savings and access to credit abroad. Farmers, tradesmen and the common people had to resort to usurers who charged sky-high interests, to commercial creditors and trade credits. The establishment of banks could solve these problems according to the authorities.

Trust in an organisation is based on mutual understanding of the aim and role of the organisation among its customers and collaborators. In the first years of banking there were probably low levels of pre-contractual trust in banks, these organisations were unfamiliar to most people and there were no formal structures or regulations to secure customers deposit. Banking was dependent on relational and pre-contractual trust from the customers. This trust is based on interaction and experience as bases for creating familiarity. A historical analysis of these bases for trust has to explore the social embedding and context as possible bases for pre-contractual and relational trust as we do not have access to data from the actual relationship between bank and customer.

The paternalistic bank

Initially, savings banks had a social as well as an economic aim; to promote saving of money among the peasantry and working class as a way of preventing them from spending their few coins on alcohol, among others, and to give credit and facilitate circulation of money (Rønning 1972, Nordnes 1993).

In 1821 the editor of the newspaper “Morgenbladet” took an initiative to Stortinget (the Norwegian Parliament); and advised that it ought to ‘*establish a universal charitable institution*’ especially for widows and fatherless children. The model was similar to institutions in England, Scotland and on the continent (Rønning 1972:15). On 6th October 1821 a Royal Commission was established with the aim of creating a plan for a public pension fund connected to savings banks. This seems to have been an urgent matter; already in April 1822 the Commission issued a public invitation for creation of Norway’s first savings bank, Christiania Sparebank. In the invitation to sign up for the new bank’s primary capital, it was pointed out that the bank should promote diligence and frugality, it should play a role in combating poverty and contribute to moral betterment amongst the working classes. Savings banks were obliged to be a bank for the common people, whom were assumed to be ignorant in monetary matters (Rønning 1972).

Savings banks should, according to this, operate as paternalistic socio-political agents; they should have an educational role and function as a pension- and sickness fund. In this way the state provided a kind of solution to the problem of poverty – the problem was transferred to the bank. Kirkedepartementet (The Ministry of Church Affairs) had the jurisdiction of savings banks, and this emphasises their role as social institutions.

The establishment of Christiania Sparebank and its statutes was a template for subsequent savings banks. The bank’s objective was, according to its statutes, to receive and collect interest on savings in particular from workers and servants. To be able to pay interest on savings, the bank had to circulate the money. Provisions from credit quickly proved to be the banks’ main income. Christiania Sparebank’s social political intentions were soon overcome in pursuit of commercial aims. In other countries the saving banks’ funds were placed in the treasury to earn interest, in Norway there was no such arrangement. The money had to be loaned out, and according to the banks statutes, at ‘the highest possible security and price’ (Rønning 1972:17). The statutes also stated that the old and sick who sought the poor relief

could have the bank's recommendations providing they had been customers. This recommendation was probably unattainable for poor people; they had most likely not been bank customers and it is unlikely that they had money available for savings.

The combination of business activities and moral paternalism towards the common people was probably difficult to balance. Despite good intentions in the first years, the savings banks were not popular in the target group. It soon turned out that it was rather difficult to encourage savings from ordinary people; three of nine banks established in the 1820s had to close down after a short time (Rønning 1972). The savings banks were not successful in the early years; they did not contribute to improving social conditions or advance the common people's willingness to save. The savings banks received only small deposits, and the economic explanation was that the common people were of limited means (Rønning 1972). They did not have surplus money to save, nor could they afford to pay for credit and they had little or no mortgage security.

On the other hand, banks were a new and unfamiliar organisation and a stable monetary unit was not fully established. Common people did probably not have pre-contractual trust in the stable value of the money or that the bank could take care of their few savings and they were not familiar with the leading men in the bank. These elements perhaps weakened the willingness to put money into savings banks (Nordnes 1993). Depositing money was risky for a customer as he literally had to hand over the money to the bank. The deposited funds were kept in the bank, in a box with three locks and the money was not secure against embezzlement, theft or speculation. The funds were not secured other than by pre-contractual and relational trust in those persons who were responsible for the bank's activities and the bank's trustworthiness which based on its financial reserves. Potential customers, at least from the peasantry, may not have had knowledge of how the bank performed its duties or of its financial resources. In the absence of structural trust, the customers had to depend on pre-contractual and relational trust bases; on personal ties, interaction and familiarity with the leading men in the bank. And vice versa, the bank had to develop familiarity with the customers to attract their deposits.

Even though the savings banks were initiated as a bank for the common person, they soon became a financial tool for merchants and the middle class. This was not only for financial reasons, but also because banking is a matter of customers trust. Lack of pre-contractual ,

relational and structural bases for trust is most likely one additional explanation of the absence of deposits from the common people.

The middle class bank

When the first savings bank was established in 1822, there was no legal framework for these kinds of organisations. The first Savings Banks Act was passed on 20 July 1824, but it was a weak foundation for development of structurally based trust. The aim of the act was governmental control and the act provided no security for depositors' funds. The Savings Bank Act was based on the premise that the income of savings banks was so low that the banks needed some economic and business-related privileges in order to exist; this was called "approbation".¹⁰⁴ From 1836, all public foundations were allowed to place their cash into the nearest approbated savings bank. Approbation required that the bank permitted regulation of their activities by statutes (plans) approved by the government. New savings banks had to copy the statutes of previously approved banks as the ministry prioritised conformity between the savings banks. Divergent statutes were not approved, and thereby was a shared system of statutes instituted for creation of savings banks.

In the first 50 years, governmental control of the savings banks was primarily to provide approbation. Approbation can be interpreted as an official approval of these banks and that these banks therefore were entrusted with a responsibility to be cautious and behave trustworthy. Approbation provided income privileges and imposed control related to the banks' potential for income, but it did not institute any obligations or security on behalf of the government. Approbation was therefore not a sufficient basis for structural trust, but a combination of the savings banks' beneficial aims and approbation could have installed a basis for pre-contractual trust in these banks. This was a trust in that these organisations had prudential duties and took care of special considerations.

The savings banks were established as independent organisations with a primary capital as equity base. The founders could be private individuals or municipal authorities. The primary capital contributions were either gifts or interest free loans (Rønning 1972:16). Deposits in the primary capital provided the depositor with a seat in the bank's leading authority;

¹⁰⁴ Approbated banks received, amongst other things, the right to demand 5% interest on mortgage loans; for other banks the interest on mortgages was, right up to 1857, fixed at 4%. For further descriptions of privileges, see Rønning 1972, Nordnes 1993.

Forstanderskapet (the team of elders) which elected the Board of directors. The Board of directors was an unsalaried management of the bank. The members of the committee of representatives were called *forstandere*, in English *elders*, a term that reflects the paternalism of the savings banks.¹⁰⁵ *Elder* is usually associated with the church and leaders with a paternal responsibility for their flock.

The use of the term elder and unsalaried management for everyday work may indicate that savings banks were perceived as generally beneficial organisations; an image that perhaps could provide trust and accountability. However, it is likely that there were few or no bases for trust between common people and the savings banks' leading men who belonged to the social elite. The groups had probably nothing in common, no reciprocal ties, no mutual understanding and consequently there were few, if any bases for developing relational or pre-contractual trust in the relationship. The effect of social differences in a society is low familiarity and little interaction between the different social classes. In a retrospective trust perspective it is not surprising that the savings banks had problems with receiving deposits from common people.

After 1830, the normal practice was to have a salaried Board of directors, which indicated that savings banks were businesses rather than charities. According to local bank histories, it appears that the absence of common people as customers was most prevalent in the towns, perhaps because the social differences and class distance were most apparent here.

The savings banks were established by the wealthier class. In the towns it was senior civil servants, merchants and businessmen who paid shares into the primary capital and established savings banks. These elites were aware of the potential benefit in the savings banks as a source of credit and they had the means to become bank customers. The wealthy could offer security as mortgages or trustworthy endorsers. They also had a platform for pre-contractual trust through belonging to the same class as the bank's Board of directors. Consequently it is likely that there also was relational trust between the bank and these customers; they belonged to the same social strata and interacted in a number of different contexts. Some of the central government's senior civil servants were given a seat in the bank's Board of Directors, not on behalf of the government, but by virtue of their local position and influence (Rønning 1972).

¹⁰⁵ The term is translated by me.

Being a senior civil servant was not only a basis for pre-contractual and relational trust, it could also support the image of savings banks as a kind of public institutions. Provided that people had trust in the state, this trust could be transferred to the savings banks if they were perceived to represent the state.

Even though there were few arenas for interaction across different social classes, there may have been instances of interaction and relational trust between common people and savings banks' management, but this was probably more of an exception than the rule. Interaction across social classes does not necessarily lead to trust; it can have the opposite effect and provide unilateral or reciprocal scepticism and distrust.

Not every savings bank wanted to attract common people as customers. Bergens Sparebank (Bergens Savingsbank) for instance, adjusted the discount rate up to the interest level that was normal between merchants because they preferred to have merchants and not common people as customers. Bergens Sparebank decided to avoid small loans as they had low security and were inconvenient, they represented much work and low profit. These loans were for the common people 'who, by virtue of their lower socioeconomic status would be unknown to most of the Board of directors' (Rønning 1972:25).¹⁰⁶

There were exceptions from this attitude. Hammerfest Sparebank, (Hammerfest Savings Bank) established in 1847, had a large number of deposits from common people. This bank seems to have been a common people's bank from the outset and was supported by almost the entire population, with the exception of fishermen and the upper class, according to an overview of bank depositors from 1850 (Jacobsen 1974). Wives and widows were the largest group of depositors in addition to state funds. One of the founders of the bank and chairman for many years was known as a man with a heart for common people and concern for humanitarian and social work. He supported public education and progress amongst the working class (Jacobsen 1974:78). Among common people this could be a basis for pre-contractual trust and development of relational trust in the bank, but perhaps it also reduced the trust among the upper classes. The upper class in Hammerfest were not customers in the

¹⁰⁶ It is interesting to note that in a study of female entrepreneurs by Lotherington and Ellingsen (2002) bank clerks used the same argumentation when they were asked about credit for female entrepreneurs and single mothers. The banks preferred not to have these groups as business customers as they expected female entrepreneurs to be too little profit oriented; this group of customers represented too much work and too little profit.

local savings bank; they continued to use their foreign credit sources, particularly in Northern Germany. They probably had low pre-contractual trust in the chairman of the bank.

12.3 Interaction between relational and structural bases for trust

Until about 1840 the savings banks were first and foremost established in the towns. Throughout the next decade there was a significant growth of savings banks in the rural communities and municipalities. This was because of general economic growth and the introduction of municipal self-government.

Formannskapsloven (The Act on Executive Committees) of 1837 demanded that the municipal administration was financially responsible for the care of the poor. Establishing savings banks were, as previously mentioned, perceived to be a solution to this problem, and in some municipalities the entire local council was in the bank's committee of representatives. The local savings banks could be so closely linked with the local authorities that they could be perceived as a civic institution – suggesting that the pre-contractual trust in these institutions could be transferred to the savings banks.

Savings banks were often established on initiatives from the municipal executive committee who demanded to have representatives amongst the bank's Board of directors and/or committee of representatives. In addition to pre-contractual trust related to the societal role of the savings bank, the composition of the Board of Directors could be a basis for trust. It is likely that those who had a seat in the local council were among the trusted men in the rural community. Including them could provide some support from the common people and provide an initial basis for pre-contractual and perhaps relational trust.

It was normal practice that the municipal treasury's cash was stored in the savings bank; this money was the engine of the local economy. In many municipalities, the granary was converted into the savings bank's primary capital. The granaries were the rural communities' common property and in the non-monetary economy the granaries had functioned as banks by lending out corn during times of hardship. In some cases the granary had not functioned as intended, the corn was sold during the 1830s-1840s, and the income was used as primary capital to establish a local savings bank. The basis for using the corn money was that the savings bank's purpose was to ensure supply of credit in the regions (Hals 1972, Rønning

1972). The use of common resources as primary capital for establishing savings banks reinforced their social role in the municipalities and was probably a basis for pre-contractual basis for trust.

The establishment of many small local savings banks was necessary as familiarity and local relationships were a prerequisite for relational trust, in particular because structural bases for trust was still absent. In rural communities with no granaries, the capital had to be acquired from personal contributions, such as for instance the establishment of Målselv Sparebank (Målselv Savings Bank) in 1861 (Kiil 1976). In these cases it was important that persons representing the bank were among those who were trusted in the municipality. In Målselv the district sheriff headed the establishment of the bank and its activities. In Lyngen municipality this role was performed by one teacher and two merchants when the savings bank was established in 1907. It is likely that the trust bases related to these people were a combination of pre-contractual and relational elements and that their social positions provided a form of ascribed familiarity as basis for trust. The leading men in the rural communities belonged probably to highly regarded families or were personally trusted. People with a formal societal position, such as the sheriff, could be attributed a kind of structural trust and their position would be a basis for pre-contractual trust.

The savings banks' tasks were often performed by persons seated on the bank's board and the local council. These persons did not represent the municipality as such, but then as now, holding office seems often to have a cumulative effect. Those who are entrusted with one position often receive other positions. Trust acquired in a formal position seems to be transferred to the person. The municipality can function as a structural base for trust, this base could be generalised to the savings bank and provide a symbolic image of the bank as something similar to the municipal administration. The savings banks' position as the mainstay of the local society was underlined by the fact that the banks were managed by local prominences.

The savings banks were often called a "rural bank". This is a symbolic name based on practical realities. The relationship between the savings bank and the local community was founded on personal and official ties. Initially it was the wealthier members who were the bank customers. This was also the situation in the rural communities, for instance freehold farmers. Gradually smallholders, who could take control of their own farm, also become bank

customers. This was probably because there were more people who had property they could mortgage and this provided broader group of potential bank customers than in the towns. In addition, it may be surmised that the conditions for developing mutual trust between bank and customer were probably better in the rural communities because of the close link between the savings bank and the municipal administration.

The idea of a savings bank as a local bank and a bank with a special societal responsibility is therefore an idea which has long and deep historical roots and is an element in the basis for pre-contractual trust. It was developed in the early years of the savings bank, based on their early aims as societal institutions, and even though the aims, to a large extent, have changed, the idea still existed in the 1990s.¹⁰⁷ This idea was one reason for the loss of trust after deregulation, which will be further discussed in the next chapter.

12.4 From relational to structural based trust

In 1851 Finansdepartementet (the Ministry of Finance) took on the responsibility for approving the savings banks, this confirmed that banks were now economic rather than social institutions. The national bank was the primary lender for the industry, in 1834 for instance, 90 percent of the mortgage loans were to the industry. This was in conflict with the national bank's regulations and in 1851 a national mortgage loan bank was established for long-term credit. Norges Bank could now prioritise national bank functions and short-term commercial loans to the banks (Rønning 1972).

Norway had a free-trade and laissez-fair policy from the 1850s up to well into the 1870s. This was a period of growth for industry and commerce. After 1875 there was a period of economic stagnation; a tight financial market, a substantial demand for credit and restricted supply of deposits. Risk management was not well performed. This caused bank crises and the savings banks lost money; many of them went bankrupt in the 1880s. The banks had large shares of their loans in short-term bills of exchange associated with personal security and relational trust in the customer. Adequate formal protection mechanisms for bank activities had yet not been established.

¹⁰⁷ Several customers mentioned in the interviews about their relation to the savings bank that they perceived the savings bank as a kind of public institution. This is probably an effect of the bank role that was instituted more than 150 years ago and that had been maintained as an element in the pre-contractual basis for trust.

In this turbulent economic phase, both common people and politicians asked questions about savings banks' operations. The savings banks' dependence on relational trust resulted in diminishing support for some of the banks. Security measures were necessary, measures that also had trust effects and ensured that the banks did not abuse their trusted responsibility for the customer's funds. There was also a disagreement about whom the bank was for; the lower classes or the middle class? This was an important question with regard to who should have the right to a seat in the committee of representatives and to exert influence on the bank. The question was raised when it was necessary to supplement the committee of representatives and the new members were taken on by self-supplementing; the members of the committee selected the new members. In some towns, trust disappeared because of disagreement about this question, and whole groups, for example, craftsmen's associations, chose *exit* and established their own savings banks (Rønning 1972).¹⁰⁸

As pointed out, the savings banks in the rural communities appears to have had a broader basis for trust than in the towns. In the 1880s, two thirds of the rural banks had a committee of representatives completely or partly controlled by the municipality (Egge 1972). The main reasons for municipal control of the savings bank were that the bank could be based on the community's funds, and the bank was important for the municipality's economy. The savings banks granted credit to the depositors and the municipality, and became gradually an important buyer of government and semi-government bonds. This, together with public approbation, may have given the savings banks an appearance of being public institutions, without actually being so. The image as a kind of public institution was also an element in the basis for pre-contractual trust in the savings banks (Nordnes 1993).

Throughout the *laissez-faire* period the state was against interfering with industry and commerce (Bergh et al. 1983), but the savings banks were considered to be in a special position in relation to this. The Ministry of Finance sharpened the requirements for approbation and introduced administrative injunctions on the savings banks during this period. New rules for administration and the daily operation of savings banks were imposed.¹⁰⁹ The new regulations had both control and trust effects; the Ministry of Finance's

¹⁰⁸ "Exit", according to Hirschman (1970:4), means to "stop buying or leave the organisation".

¹⁰⁹ For instance, from 1861 the primary capital had to be no less than 300 "riksdaler" (the new Norwegian currency), and the savings bank were required to provide annual accounts to the Ministry. Managing directors of

increased the control of how the savings banks operated. The control mechanisms were intended to strengthen the safeguard of depositors' funds, to prevent the bank management misusing or gaining unnecessary benefits based on their trusted position. These regulations probably provided strengthening of the depositor trust in the bank.

Throughout the first fifty years of banking, the founding fathers of the bank had a strong position. They were the management and could in principle handle the deposit capital as their own money. In this situation, relationships and word of mouth were the prevalent basis for trust. Gradually a separation was instituted between the persons in management and their role as bank staff, the bank organisation was established and a modern bureaucracy emerged with formal roles and hierarchal structures. Together with a major revision of the Savings Banks Act in 1887 this established a foundation for structural trust in banks and banking. The history indicates that institutionalisation of structural bases for trust are long-term processes that have to be continuously maintained to avoid trust crisis.

The savings banks and local democracy – expansion of the basis for trust

The change in the Savings Banks Act on 6 July 1887, did not take place without prior debate in the Norwegian Parliament. There was, for instance, a political disagreement about the self-supplementing system. This system had contributed to narrowing the bank's basis for trust and the question was whether the self-supplementing system should be replaced by a depositor supplementing or a municipal supplementing system. The savings banks were still partially regarded as public banks, in contrast to the private banks.

Rural banks were partly considered as a form of cooperative society.¹¹⁰ Municipal supplementing was based on the premise that the local authorities and not the state should govern the savings banks' equity, which many felt was the town's or the rural community's funds (Egge 1972). The Savings Banks Act of 1887 banned self-supplementing after hard debates in the Norwegian Parliament, and also ensured that the committee of representatives would be chosen from the depositors. Democracy gained ground and common people were entrusted with the potential to control their own funds. Customers with deposits above a small

new savings banks were not allowed credit in the bank or to guarantee without mortgage in real estate or deposited securities. This was necessary because there had been several cases where bank management had supplied them self with risky credit and lost the banks deposit capital.

¹¹⁰ The savings banks owned themselves; they had to take care of the interests of depositors and not yield profit to owners.

minimum were able to participate in deciding the composition of the committee of representatives. This was adopted with a narrow majority; the argument was that the new system would contribute to better safeguard of the depositors' interests (Egge 1972). In addition it probably also contributed to strengthening of the pre-contractual basis for trust in the bank.

The savings banks administrated societal interests via credit and investment, and had therefore to be under some degree of state control; the question was just what form of control. Opposition towards government control was also an element in the defence of municipal self-ownership. Banking was included in the agrarian policy, and became gradually an element in governmental decentralisation policy. The image of the savings banks as different from business enterprises appears to have been strengthened in the rural communities during this period. The distinction between town and country bank might be partly related to the perception of what the savings banks' function in society should be. In the towns, many were of the opinion that the savings banks should be viewed as private enterprises. Even though the savings banks were not intended to operate for profit, the opinion was that these banks should have the private banks as model for their activities.¹¹¹

Depositors' interests were the key argument for several amendments to the 1887 Act. The introduction of audit committees which intended to monitor the committees of representatives and statutes that restricted the bank's leaders and representatives' freedom of action, were fixed by law. A law was also introduced stating the requirement of primary capital, and two prudential clauses were introduced relating to the requirement for the bank's security and liquidity position. The right to use the word *save* was linked to the obligation to operate *safe* and make *profitable* investment of saved funds. From now on a savings bank was required to have official approval for carrying out their activities. The decision was justified by the consideration of the "*common people of limited means*", who could lose their entire savings capital (Rønning 1972). Through legislation the public authorities also had to ensure that the banks did not abuse their position towards the customers. The Savings Banks Act was intended to ensure control of the bank's management as well as the customers' funds and instituted a basis for structural trust that ensured that the bank attended to its entrusted

¹¹¹ Later private banks were called commercial banks.

responsibility. In addition was the claim that the savings banks had fiduciary obligations towards the customer a basis for pre-contractual trust.

The creation of unity in the savings bank system was another reason for establishing by law a part of the provisions, which until then were stipulated by regulations and ordinance. Prior to the act of 1887, the state could first and foremost exert control in relation to approbation of the bank's statutes.¹¹² Approbated banks had received approval for their statutes and could not be subjected to change, except in respect of laws. This had led to great variation in the savings banks' activities. Government control and approval enforced homogenous practice and common frameworks – equal treatment facilitates predictability and is a basis for structural trust.

Apart from the provisions of the Savings Banks Act, the savings banks retained their autonomy in respect to administrative matters, which were regulated via the banks' statutes. The bank organisation began to take form. From the 1890s and beyond, expansion in the savings banks' administrative apparatus was based on changes in law and regulations. This had trust effects; it prevented large, abrupt changes in the savings bank's practice towards of their customers. Salaried bank managers and tellers were employed, the control apparatus was strengthened and accounting procedures tightened up (Egge 1972). Introduction of formal and hierarchical bank organisations, expansion of the recruitment system for the bank's committee of representatives and tightening up of the bank's freedom of action via the Savings Bank Act, professionalised the banks and instituted structural trust mechanisms.

12.5 Instituting a basis for structural trust

Towards the end of 1890, the international economic situations improved, and a new wave of industrialisation and economic growth started in Norway. This included considerable borrowing abroad and foreign investments at home. The commercial banks expanded and in total they became larger than the savings banks. There was a minor economic backlash around the turn of the century, but the economy did not stagnate severely. Capital flowed into Norway as foreign investments and sale of Norwegian government bonds abroad, and the country entered a long-lasting boom after 1905 (Bergh et al. 1983).

¹¹² Non-approbated banks had not been obliged to comply with the legislation.

The boom came to an end with the first post-war slump in 1920-21 which resulted in low production and high unemployment. Banks are vulnerable to economic changes in the industry, and after a couple of years there was a run of bankruptcies. About 100 banks had to close in 1923, primarily commercial banks (Bergh et al. 1983). The depositors did not trust that their money was safe, and several banks had a “run” of customers who withdraw investments. The “run” was related to diminishing trust from the customers and driven by needs. Unemployment forced people to live on savings, this strained the banks’ cash flow further, and they were unable to meet their obligations towards the customers. Many commercial banks went bankrupt in the 1920s despite that Norges Bank (Bank of Norway) offered support as cash loans or deposits.

Later in the 1920s the savings banks were affected, particularly because of crises in the municipal economy. The municipalities pursued a policy of expansion the first years after World War I, and were noticeably affected by the parity policy as well as the failure in industry. Municipalities suffered from significant budget deficits and could not meet their obligations to the banks. During the period 1922-33, the municipalities’ taxable nominal income dropped by 50 percent and assets were reduced to at least 60 percent of the 1922 level (Nordvik 1972). The economic problems seemed to have affected the trust between bank and customer differently.

Insolvent banks and depositor interests

The close relationship between the municipality and the savings bank made the banks vulnerable towards decline in income and payment problems in the municipal sector. Several banks had to ask for public debt settlement when the bank’s liquidity was insufficient to cover the depositors’ requirements. Tromsø Sparebank (Tromsø Savings Bank) was a typical example of this.

Tromsø Sparebank had to ask for public debt settlement in 1929. This was because loss of credit to the fishing industry and industrial companies as well as credit to the municipality and the county, which had loans to construct electrical utilities and other infrastructure (Harbitz 1986). Tromsø municipality was in a poor economic position and the bank had also provided loans to ease the municipal cash flow in difficult times. Tromsø Sparebank emphasised that the bank had to make a debt settlement which protected depositors’ interests as much as possible, thereby the banks secured the depositors’ trust. Debt settlement means that the

depositors receive a percentage share of their outstanding balance in instalments. It turned out that a number of customers did not take out their investment in instalments, but let them remain in the bank.

It is likely that the strong prioritisation of the depositors' interests in the difficult situation for the bank had the effect that an unexpectedly large number of the customers kept their deposits in the bank. This indicated that the loss of trust in the bank was not as severe as might have been expected. The customers' trust was one of the factors to which Norges Bank attributed significant weight in the consideration of bankruptcy or debt settlement. For Norges Bank the problem was whether the customers would continue to trust a bank that had gone through a debt settlement, or whether it would be better to close down the bank and to enter into public debt settlement and create a new bank.

The challenges in the bank industry made it necessary to improve the legislation relating to insolvent banks. The customers could risk losing their investment in the event of bankruptcy, and credit customers risked that their entire loan was withdrawn by the bank. In 1923 an act of public administration was created for banks which had stopped payment to depositors. Norges Bank appointed an administration board for insolvent banks and these banks were set under public administration. This law was replaced by an act in 1925 which allowed liquidation of insolvent banks, with the exception of the savings banks. They received debt settlement and in 1928 an act on administrative debt settlement was created as an alternative to bankruptcy.

Financial support, regulations and control

There was a political debate about how the government should assist the banks. It appeared to have been politically acceptable that the savings banks were social institutions with great importance for the community economy and as administrator of small depositor funds. The legislation had, therefore, to ensure consistent formal procedures that could address consideration of depositors in the best possible way and help facilitate reconstruction of the banks.¹¹³ In addition to benefits from Garantifondet (The Guarantee Fund), the savings banks received support through the national budget.¹¹⁴ This provided credit to savings banks that entered into liquidity problems due to municipal debt settlement. In the period 1929-34 this

¹¹³ See Nordnes (1993) for further description of debt settlement and bankruptcy arrangements.

¹¹⁴ This became later Sikringsfondet (The Security Fund), see next page.

support comprised NOK 9.8 million (Nordvik 1972). New credit institutions were also established which were intended to convert the savings banks' claims among the municipalities and in primary industry, for instance was Norges Kommunalbank (the Norwegian Municipal Bank) established in 1927 and the credit for farmers and fishers in 1932 and 1934 respectively. These credit institutions took over some of the savings bank's most risk-exposed loans.

Trust and government effects were important in this difficult situation. The interests of the depositors had to be safeguarded via structural trust mechanisms. After about 100 years of banking, the customers had probably developed some pre-contractual trust in banks and banking, but this was most likely still quite fragile, Banks and the authorities therefore had to work together to maintain trust through economic turbulence.

The year 1924 can be regarded as a memorable year in the development of the savings bank system. The bank historians have described the amendments in the Savings Banks Act in 1924 as comprehensive, detailed, and more restrictive than previous amendments (Nordvik 1972, Harbitz 1986, Bryhni et al. 1991, Knutsen 2007).¹¹⁵ Three general comments can be made about the new act: 1) it marks the start of an era where the government becomes more engaged in increasing regulation and control of the banks and especially the savings banks 2) it safeguarded the interests of depositors 3) the act included detailed regulations for limiting of the banks' roles and defines the competence of its various bodies.

The new Savings Banks Act sharpened the distinction between the committee of representatives and the board, and between the democratic and administrative bodies in the bank. The establishment of savings banks was now subject to regulations. With regard to safeguarding the interests of the depositors, the banks were required to have a cash reserve of 1/10th of the investments, a somewhat less stringent requirement than 1/8th in the 1887 act. The concept of a security fund was introduced by the banking industry, it became a law and the banks had to set aside 2 percent of their net profit to a security fund. In 1932 a separate law on Garantikasse for sparebanker (The Guarantee Funds for savings banks) was created, this was later changed to Sikringsfondet (The Security Fund). These funds were to provide loans or support income to banks in difficulties. New legislation was established to provide

¹¹⁵ In the same year came the act on commercial and shareholder banks, an act which had many similarities with the Savings Bank Act.

more exacting bank inspection and a requirement for keeping of accounts, auditing, and use of profit. This was intended to protect the depositors, and particularly the interests of small depositors.

It is the *depositor*, not the borrower, or customer, around whom the Savings Banks Act is built. Savings banks' activities are anchored to the depositor; the credit function remains a means of securing the return of the investments.¹¹⁶ The purpose of instituting structural trust in the savings banks was to reassure the customer that the deposit was safe when it was left to the bank. Structural trust mechanisms ensured that the bank took over responsibility for the customers' money and administered them in a safe manner, which is the banks' fiduciary duty.

The fact that the savings banks did not go bankrupt, but entered into debt settlement reinforced their image of responsibility. The strict loan regulations contributed to giving customers the impression that banks took responsibility for and looked after the customers' money, and that they made prudent decisions in credit activities. Gradually it has been institutionalised as an element in the pre-contractual basis for trust that the savings banks were cautious and responsible institutions. This together with the institutionalisation of structural bases for trust, and increased familiarity of the banks as institutions not only for the wealthy, but also for the common people, provided a compound basis for trust in savings banks and banking.

12.6 Conclusion: new configurations of trust bases

The changes in the savings banks' legal frameworks resulted in new procedures and institutionalisation of new, normative foundations for activities. Over time, customers and society's expectations of savings banks' role were changed – the customers developed an image of the bank as reliable and as an institution that took care of their interests. The development of structural bases for trust and familiar relationships between bank and customer contributed in the long run to strengthen the pre-contractual basis for trust, but trust can be fragile and needs to be actively maintained, particularly in periods of social change and crisis.

¹¹⁶ After the deregulation in the mid eighties, the focus shifted to credit.

The development of the relationship between savings bank and customer can be described as different configurations of trust bases. The development in trust bases and their configuration can be illustrated in a figure which shows possible configurations bases for trust in savings banks among common people during the first hundred years of banking.



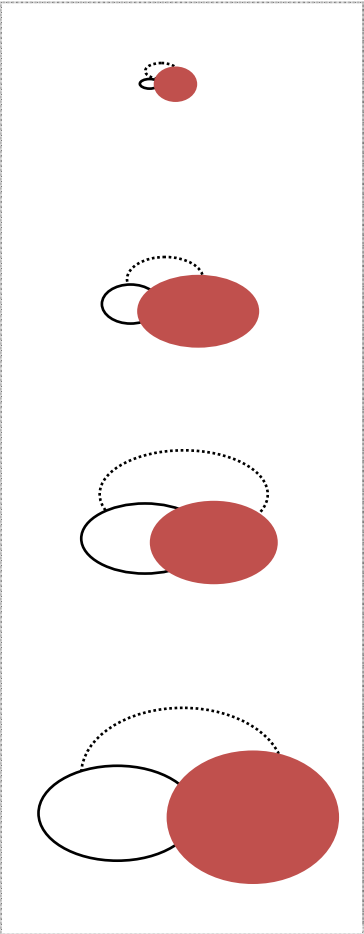
Each of the three bases for trust are marked as different circles; the relational trust basis is red, pre-contractual trust is marked as  and structural trust is marked as . The relative size of the circles indicates the prevalence of trust base at a particular time. This is analytical suggestions of how possible trust configurations could be in different periods of time, based on analysis of bank history.

Figure 2 Configuration of trust bases for the relationship between common people and savings banks



From 1820 => a few if any bases for relational trust, hardly any pre-contractual trust, and even less bases for structural trust.

From 1850 => relational and pre-contractual bases were developed, at least in the countryside and structural bases for trust became gradually institutionalised.

From 1887 => pre-contractual and structural bases for trust were strengthened through democratic control and bureaucratic management.

From 1924 => strong bases for structural trust were introduced, pre-contractual and relational bases for trust were expanded. Throughout this process, the three bases for trust had been expanded.

After about a hundred years a set of bases for trust is institutionalised and some equilibrium and robustness are established, in the sense that the trust in banks has three social pillars. If

one of them is weakened, the other can become more important. The changes in the bank laws during the inter-war period could also be perceived as an expression of political acknowledgement of the banking system's vital significance for the economy and society.

Throughout the twentieth century the savings banks have become tightly interwoven in society's economic system. Even though shifting political ideologies affected banking policies; the tendency was that trust effects were the main aim of bank regulations up to World War II. At the same time, there seems to have been a trend where considerations of the individual customer gradually have had to give way to what is felt to best serve the nation's economy. The need to secure trust in the country's financial system together with maintaining stability and predictability in the economy, required government support measures that contributed to rebuilding of the banks and signalled security.

The banks were important tools in the financial policy throughout the rebuilding of Norway after WWII and in the mid-eighties the saving banks were deregulated. As pointed out several times throughout the thesis, this was a process that severely affected the trust relationship between bank and customer. The next and final example of trust configurations will discuss how deregulation changed the foundations for this trust. It is an in-depth study of the fluctuations in trust in savings banks in the early 1990s and draws a few parallels to today's financial crisis.

13. DEREGULATION OF TRUST

*'If it is so that all customers are treated differently, but believe that there is equal treatment, whereas the reality is that the bank every time it enters into an agreement with a customer consider this as an isolated transaction to ensure profitability, then there is a tremendous gap between the customer's expectations and the realities.'*¹¹⁷

The dynamic between social and economic change and trust is an understudied topic; the main perspective on trust has been to analyse it as a static quality rather than a dynamic social process (Möllering 2012). However, Zucker's analysis of the transformation of the US economic system during 1840-1920 is an example of how the dynamic between social change, economic change and new forms of trust can be explored (Zucker 1986). According to Zucker, social organisation is the premise for economic organisation; social change transforms trust relations, which again leads to organisational transformation of economic institutions. In other words: social change affects trust which again transforms economic organisation.

The question to be discussed in this chapter is the reverse: I argue that organisational change in the economic sphere, such as the restructuring of transactional relationships and interactions, impacts on the social basis for trust to the extent that one can talk about a more fundamental transformation of social institutions. Put differently, I hold that trust is affected by a change in the way markets are organised and work, which in turn affects society at large.

Zucker's distinction between social and economic organisation is somewhat diffuse, but her causal chain is relevant as an introduction to a discussion of the relationship between trust and social and economic change. Trust is, according to her, one of the cornerstones of social and economic organisation, but there is no clear cut distinction between these forms of organisation. The premise for the discussion here is that economic organisation is one form of social organisation. Economic organisation comprises the formal structures which are framing and regulating the economy, economic transactions and the social interaction in the economic field.¹¹⁸ A corollary of this premise is that change in economic organisation can have consequences for social organisation.

¹¹⁷ Bank customer (in data material Nordnes 1993)

¹¹⁸ This is not a formal definition but a sensitising description, as suggested by Blumer (1954).

As an empirical example of the relationship between trust and social change, this chapter explores how deregulation, as a macro level change in the economic organisation of banking, also has effects on the meso and micro levels. Banks were transformed into financial market actors, and this process affected the social bases for trust on a micro level; the trust between customer and savings bank. The chapter also discuss this transformation process as an example of the relationship between trust and social modernisation.

The aim of the chapter is also to demonstrate the power of the composite concept and expectation model as tools for analysing the relationship between trust and social change. This is done by means of the data the conceptualisation is generated from; the research on the bank-customer trust relationship. These data describe social processes which still are relevant as example of a general process; that is how major organisational change can affect trust relationships.

The chapter introduces the background of economic crises and fluctuation in levels of trust. Thereafter follows an introduction of the historical context for the deregulation of banks. An outline of the regulation systems and the process of deregulation are given to provide insight in the structural and pre-contractual basis for the bank - customer relationship. This is followed by a discussion of market competition as the new basis for the relationship and the new configuration of trust. The analysis of the trust process is finally discussed in relation to social change and modernisation. The focus of the trust analysis is first and foremost on micro level processes; on the actors' social construction of trust and the transformations of the social bases for trust. These bases are the common platform for development of mutual understanding and trust.

13.1 Deregulation, bank crisis and loss of trust

Economic history indicates that financial liberalisations are followed by crises in bank and finance (Kaminsky & Rogoff 1999, Reinhart & Rogoff 2008, Kindleberger & Aliber 2011). Banking is vulnerable and bank crises contain systemic risk which can spread to the rest of the economy (Heffernan 1996). Bank crises can lead to a major loss of trust with the effect that customers withdraw their money and investments are held back.

A political and ideological shift took place throughout the Western world during the 1980s, the banking and the finance sector was deregulated; political control and regulation gave way to market competition. Economic liberalisation is the backcloth for the bank related financial crises that hit the Western economy throughout the 1980ies and until the mid 1990s (Reinhardt & Rogoff 2008). In Scandinavia, the crises were protracted and both Sweden and Finland were harder hit by the crises than Norway (Heffernan 1996). In Norway the effect of the deregulation was an overextension of credit and a subsequent extensive bank crisis at the end of the 1980s and early 1990s (NOU 1992/30, Nordnes 1993, Imset & Stavrum, 1993, Berg & Eitrheim 2009). Several of the large savings- and commercial banks were put under public administration and the Norwegian Banks' Guarantee Funds had to act to secure customers deposits.¹¹⁹

Deregulation and liberalisation of the finance system was introduced as means to improve competition and efficiency; and because regulations created unintended effects because of twisting and evading of the rules (NOU 1980/4, 1986/5, 1989/1, 1992/30). Norwegian banks were deregulated during 1984 – 87, and laws and regulations that formerly had restricted the banks' credit policy and equity was repealed.¹²⁰ One effect was a huge supply of capital, both from the so called "grey capital market" and Norges Bank (The Bank of Norway). Norges Bank supplied the banks with approximately eighty billions in extraordinary credit funds and financed about 25 percent of the savings banks' growth in credit in the period 1984-87.¹²¹ In this period several of the restrictions on equity and the balance between debt and equity were removed. The increased inflow of money allowed the banks to take huge risks and several banks lent out far more money than their equity capital ratio allowed. A disproportionately large part of the loans was lent out to customers without repayment ability. The result was major losses. Management misjudgement of risk,

¹¹⁹ More precisely, it was the Savings Banks' Guarantee Fund, as the Norwegian Banks' Guarantee Fund was established on 01.07.04 as a merger of the Commercial Banks' Guarantee Fund and the Savings Banks' Guarantee Fund.

¹²⁰ The period 1984 – 87 is used because different regulations were abolished at different points of time and partly reintroduced for a shorter period (Nordnes 1993).

¹²¹ During March to May in 1986, the banks' loans in Norges Bank increased from five to seventy-five billion (Imset & Stavrum, 1993), without the central bank's extraordinary supply of capital, the lending boom would not have been possible. The rest of the lending funds were supplied from customer deposits, from the so-called grey money market and borrowings abroad (NOU 1992/30).

missing signals of trouble and general managerial deficiency are the most common causes of bank failures (Heffernan 1996, Knutsen 2012). The bank crisis resulted in merging of banks, depreciation of their share capital, and in some cases they became subjected to public control for a period.

The first signs of economic crises started in 1987 and the bank crisis was at its peak in 1991 (Nordnes 1993, Kaminsky and Rogoff 1999). At the same time trust in banks was at its lowest. The table below shows the fluctuations in the general level in trust in banks during the period 1985 – 2012.

Table 4 Trust in Norwegian banks 1985-2012

<i>Year</i>	<i>Pretty good trust</i>	<i>Very high trust</i>	<i>Trust (sum)</i>
1985	66 %	10 %	76 %
1988	47%	4 %	51%
1991	28%	1%	29%
1994	54%	6%	60%
1999	65%	10%	75%
2005	62%	14%	76%
2012 ¹²²	74%	10%	84%

The table is a summary of MMI figures. All the figures up to 2005 are from MMI, from 2006 called MMI-Univero. MMI is a former Norwegian survey company that made regular, national surveys of the level of trust in various organisations and institutions. These surveys were not a public service, and there was limited access to the results for non-customers.

Trust is here the sum of *pretty good trust* and *very high trust*. The MMI surveys indicated that in 1985, the first year after the deregulation, 76 percent of the respondents had trust in banks. In 1991, when the bank crisis was at its peak, trust was at its lowest level, only 29 percent of

¹²² These numbers are from The Norwegian financial barometer (Norsk Finansbarometer) which is a survey TNS Gallup has conducted annually in the markets of banking, general insurance and life insurance. The survey covers about 3000 interviews conducted among the population from 18 years and older. In the bank market it is conducted every year since 2004. The scale on the 2012 data is from 1-6, where 1 is *very high* and 6 is *very little*. To create comparable data, category 2-3 is merged into *pretty good*.

the respondents had trust in banks. After twenty years, in 2005, trust in banks appears to have grown stronger than before the crisis. The *very high trust* score has now increased, from 10 to 14 percent of respondents say they have *very high* trust in banks and the level of *pretty good trust* is restored to the same level as in 1985.¹²³ In 2012, trust in banks seems to have grown even stronger; 84 percent had now *pretty good trust* in banks and 10 percent has *very high trust*.¹²⁴

The fluctuations in trust indicate 1) that people's trusting is quite sensitive to the crisis in the bank and financial sector and 2) that trust is not a static and fixed quality; it is dynamic and is continuously constructed and re-constructed. The figures tell about variation in trust, but not how and why trust in banks is so vulnerable to crises. To discuss this question it is necessary to make an explorative study of how trust in banks is generated, maintained, eroded and restored through everyday action and interactions.

As crises in banking and finance are recurrent (Reinhart & Rogoff 2007, Kindleberger & Aliber 2011) an exploration of the dynamics between trust and bank crises are of general interest. Even though the international bank, finance and trust crises so far have not affected the Norwegian financial sector, the European economy, in particular in Southern-Europe, is in 2014 still ridden by a financial crisis that started around 2007 in USA, and later hit Europe. Trust in banks and financial institutions has dropped globally with 11 percent from 2008-2013, from 56 to 45 percent. In some European countries (Netherlands, Germany, UK, Spain, Ireland) this drop has been around 25 percent. In Ireland do only 11 percent of the respondents now trust banks, in Greece it is 16 percent (Edelmaninsights 2013). These figures confirm that trust in bank is very vulnerable for crises. A study of trust and financial crisis in Nederland, by van der Crujisen et al. 2013 confirms this and indicates that reduced trust in the financial sector also affects generalised trust in society negatively.

An in-depth study of trust processes in the relationship between customer and banks is relevant in understanding loss of trust in banks as a social process, and combined with insight in longitudinal fluctuations, this provides a better understanding of the current loss of trust in bank and financial institutions.

¹²³ MMI-Univero, May 2006

¹²⁴ The fluctuations between the two groups *pretty good trust* and *very high trust* can also be an effect of different ways of posing questions as the opinion-research institutes has changed during the statistical period.

13.2 The account of trust

Trust in banks and banking is made up of several elements; face to face interaction, experience, reputation, and trust in the formal structures and regulations that secures financial transactions. To recapitulate from earlier chapters, trust is a personal feeling based on individual disposition and socialisation. It is a relational quality generated and maintained through social interaction and a structural quality institutionalised through formal, legitimate structures. Development and maintenance of trust – trusting – is a dynamic social interaction between processes on personal, relational and structural level. Trust is generated as a leap of faith (Möllering 2006) triggered by an anticipated or acknowledged mutual understanding which has a social platform. I have argued that this platform has pre-contractual, relational and structural bases, and serves as a base for expectations and trusting according to the grounded theory of trust.

An exploration of this question involves a study of trust as a process of social construction and sense-making, an exploration of the social basis for trust between bank and customer, their expectations and platform for mutual understanding. The idea here is that deregulation of savings banks, which is a macro level change, transformed the platform for mutual understanding between bank and customer on several levels. It affected the face to face interaction across the counter, the banks' rationality and the tacit social contract between bank and customer and people in general. This means that changes in the structural bases for trust also affected the relational and pre-contractual bases.

An exploration of change demands insight in both the status before change and afterwards. A study of trust consequences of deregulation requires understanding of the social basis for the trust relationship between bank and customer *before* deregulation. This insight is constructed from data collected a few years *after* deregulation (1989-1992). The presentations of expectations before deregulation are interpretations of the informants' reflections on the differences between their expectations and experiences *before* deregulation and their expectations and experiences with the bank and banks a few years *after* deregulation. The analysis of retrospective data can indicate what people used to expect from their bank and how they perceive this has changed – how the pre-contractual, relational and structural basis for mutual understanding changed.¹²⁵

¹²⁵ See the appendix for further description of these data.

The initial meeting between bank and customer has a pre-contractual basis for trust, acquired through socialisation. Experiences and mediated information have impact on the customer's expectations about how a bank ought to perform its role, how it should operate and which norms and values it should practice. This mix of tacit and explicit expectations is the social basis for trust. The expectations are also based on relational experiences from interactions with the bank and on formal structures such as rules and regulations that generate stability and predictability.

General trust and customers trust is a capital for the bank, perhaps one of its most precious assets. The trust capital is a reflexive capital; it is socially constructed and individually stored in the customer's memory. Customers have *an account of trust* which is being filled up or reduced through interaction and other experiences with the bank. Through the event of interaction relational trust is created, maintained or eroded. If the bank's performance fulfils customer's expectations in an acceptable way there is mutual understanding and the interaction process runs as usual – relational and pre-contractual trust is maintained without much further reflection. The relational experiences are deposits in the account of trust. In the long run these experiences interact with the general image of the bank and mould the pre-contractual basis for trust. Social change can erode trust, in particular if the changes are a unilateral transformation of an expected common foundation for mutual understanding – the account is overdrawn when expectations are repeatedly broken.

Deregulation affected the relational development of trust because it transformed the basis for making deposits in the account of trust. New procedures and routines made the bank stand out as unpredictable to the customer, and trust was eroded. The changes in the role of the bank and the bank clerks' enactment of the new roles created open spaces for role negotiation (Seligman 2000), but trust eroded as the customers were not able to negotiate a new role in the first years after the deregulation. Trust can erode in phases of rapid change if the changes are a unilateral transformation of an assumed common foundation for mutual understanding. Trust can be restored through development of new mutual understanding, based on reflexivity, interaction, and mediated information.

13.3 Stability and regulations as structural bases for trust

The deregulation of Norwegian bank sector transformed banking from administering credit to become involved directly in market competition. This was a change in how banks performed services, pricing, risk perception and general rationality towards the customers. The pre-contractual, relational and structural bases for trust were changed – and this affected the trust relationship and eroded trust in the bank and banking.

As pointed out in the preceding chapter, structural bases for trust are platforms for generalisation of trust between strangers and over time and distance. The institutionalisation of bases for structural trust in the savings bank is a long term process, starting with the formation of the independent Norwegian state in 1814 and the parallel growth of savings banks and institutionalisation of a Norwegian state apparatus. Since then, periods of financial liberalisation has led to recurrent bank crises and subsequent development in legislations. These regulations aimed at strengthening the structural and financial base for trust and to protect the customers' assets and deposits, to prevent risk taking and secure trust in the savings banks and banking. For the customers there is a strong structural base for trust in the savings banks; the Norwegian Banks' Guarantee Fund with roots back to 1924. In this year there was a major revision of the legal framework for savings banks, strengthening the governmental control and the protection of customers deposits (Nordnes 1993). Membership of the Norwegian Banks' Guarantee Fund is mandatory for all banks with headquarters in Norway and the fund secures up to two million Norwegian crowns per depositor per bank (Norwegian Banks' Guarantee Fund).¹²⁶

Strong regulations of the savings banks in the post-World War II period were another base for structural trust. The regulations were an important premise for how the savings banks worked, how the customers perceived the bank, and what bank and customer took for granted in the relationship. The regulation regime was an element in the pre-contractual basis for trust. The regulations aimed first and foremost to secure economic stability and governmental control of the credit supply (Eitrheim et al. 2004). In addition to control effects and allocation effects, these regulations had *trust effects*. The regulation policy set premises for the customers' trust; it was a structural framework for the credit supply and safeguarding the customers' deposits. The bank relationship was a long-term transaction and the traditional savings bank's role was designed to distribute credit, not to compete for customers.

¹²⁶ <http://www.banknessikringsfond.no/en/>

The post-war period was in Norway marked by steady economic growth, and most people increased their income from decade to decade from the 1950s. Until the mid- 1980s, there was a political consensus about employing the interest rate as a political tool and means of regulating the economy. A low and stable interest rate was assumed to providing favourable distribution consequences. It was a prerequisite for achieving political aims such as increased house building, keeping the cost of living low and provide long-term investments (Norges Bank skrifter nr. 2/1974, Østerud 1979, Jansen 1992). The interest rate level was settled as declarations of fixed interest based on an agreement between Ministry of Finance and The Bank of Norway, and this policy lasted until the deregulation in 1984. The consequences of the post-war financial policy were that the interest was fairly low, stable, and predictable (NOU 1986/5, Berg & Eitrheim 2009, Knutsen 2012). The low and stable interest level was not subject for negotiation; it was taken for granted by the customers (Nordnes 1993).

To prevent pressure on prices and inflation, credit allocation was regulated by the government. The government and Ministry of Finance set a limit on the total credit supply and distribution and target figures for the credit supply were an element of the National budget.¹²⁷ Banks had to report lending volumes and lending purposes to the Norges Bank. Each bank had a quota of loans, and the frame for the bank's amount of loans was set through forced placement of investments and quota systems related to lending purposes.¹²⁸ When the quotas of loan were filled, the banks were obliged to stop lending out money (NOU-86/5). The practical implications of this were that credit was a scarce resource, and the customers expected that it had to be righteously distributed among them.

To sum up; the regulations set strong restrictions on credit supply to the banks' with the effect that the banks credit policy and interest was tightly regulated. Regulated credit allocation meant that credit was distributed in accordance with politically determined aims and to a politically determined price.

¹²⁷ Whether low interest rate really had positive distribution effects is difficult to decide in hindsight, but the expectations of beneficial effects contributed to cementing administrative decisions of the interest rate (NOU 1980/4).

¹²⁸ This was forced placement of capital which binds the bank's liquidity in relation to its credit volume.

13.4 Familiarity and prudence as pre-contractual and relational bases for trust

The institutionalisation of structural trust in banking is also a process of instituting a common basis for pre-contractual trust between bank and customer, and an institutionalisation of taken for granted expectations about bank practice and values. As pointed out above were low interest, stability and equal treatment of customers' pre-contractual expectations that governed the relationship between savings bank and customer.

Savings banks were local banks. Around 1960 almost every municipality had its savings bank that was familiar with the local context and local customers. These banks were tightly woven into the local communities; they acted as societal institutions and had close ties to the municipality. According to data, customers perceived their savings bank as a societal institution with a responsibility to care for the customers and society rather than a business organisation (Nordnes 1993). This idea was enhanced by savings banks role in effectuating financial policy. To distribute credit in accordance with politically determined aims and to a politically set price emphasised the savings banks role as prudent, entrusted and careful administrators of deposits. The customers expected that the savings bank would execute their tasks to the best of the local community, and to maintain trust, this role demanded that the savings banks practised values such as carefulness, responsibility and equality. A savings bank represented stability, familiarity and prudence, values which were instituted as elements in the pre-contractual basis of customer's trust in the bank.

Before deregulation, bank services were free, there were hardly any competition or price variations between the savings banks and credit was scarce. The challenge was to get credit approval; most customers were dependent on the decisions of their local bank. As mentioned above, loans had to be in accordance with political decided purposes and each bank could not exceed its quotas of loan for the particular lending purpose. Credit was approved after thorough assessment of loan purposes and the customers' security, background and payment ability. A good relationship to the bank was necessary to be entrusted with credit as the banks had to be cautious and avoid taking financial risks. The focus was on deposits more than credit (Nordnes 1993).¹²⁹ Customers were rarely allowed to borrow as much as they wanted

¹²⁹ One indication on this is for instance the bank education, which up till late 1980s had focus almost entirely on deposits and not credit (Nordnes 1993).

to; the lending purpose was strictly assessed. Consumer goods such as cars and cottages were difficult to get financed as house building had priority.¹³⁰ The customers expected that credit, as a scarce resource, was quite righteously distributed among them and that each customer was treated equally and thoroughly (Nordnes 1993).

Throughout the post-war period, the customers got accustomed to the practice that the bank rather than their own judgements determined their credit supply. This reinforced the image of savings banks as institutions promoting attitudes of paternalism, and values of responsibility and prudence; these attitudes were elements in the pre-contractual basis for trust and had governed the development of relational trust in the interaction between bank and customer. The customers expected that these values governed the bank practice.

Expectations are keys to predictability in social interaction; they are the platform for development of mutual understanding and trust. To be trusted requires behaving as expected and confirming the anticipated mutual understanding on which trust is based. In other words, to maintain customers trust, the banks had to perform services and practise the values that the customers expected. Expectations can be summarised into model, a table of expectations, and classified into four ideal types; as *background and constitutive*, *specific* and *unspecific* expectations (see chapter 9.5).

To recapitulate, social interaction includes the all forms of expectations, but they are more or less prevalent. The squares number 1 to 4 in the table describe the level of expectations, from expectations of specific, visible actions (square 1) to expectations based on deep tacit cultural values and norms (square 4). Constitutive expectations are related to the social role and practise in specific settings, while background expectations are related to attitudes, norms and values in the cultural context. To recapitulate, unspecific expectations mean that these expectations provide some tolerance about how to behave. Specific expectations are related to action and practice; they are about rules, rights, procedures, and other more tangible and specified elements in social interaction. Classifying expectations provides a deeper understanding of expectations that have to be fulfilled to develop trust. This knowledge is also

¹³⁰ In the late 1970s, when people became better off economically and the supply of consumer goods increased, it was better access to house financing than consumer loans, and the banks therefore suggested adapting the lending purpose to the available credit purpose (Nordnes 1993).

relevant to understand the process of restoration of trust and to develop new configurations of and social bases, here in particular, pre-contractual and relational bases for trust.

The main elements in the customers’ platform for mutual understanding and trust before deregulation can be summarised into the table of expectations. These expectations are analytical constructions based on customer data and the table below summarises some of the more prevalent customer expectations before deregulation.

Table 5 Customer expectations before deregulation

	<i>Specific expectations;</i> related to practice	<i>Unspecific expectations;</i> tacit, related to attitude
<i>Constitutive expectations;</i> defining a particular context	1) Low and stable interest, free services, thorough service, control	3) Credit is scarce, equal price and distribution, carefulness, not taking risk, paternalism, dependency, security
<i>Background expectations;</i> social behaviour in general	2) Familiarity and local knowledge, interaction based on mutual understanding	4) Honesty, responsibility, behave as societal organisations, a kind of ‘other-orientation’

To maintain trust the savings bank had to fulfil these expectations to an acceptable extent. Customer data indicated that all the four types of expectations were affected by deregulation, and that deregulation was a deep and comprehensive transformation of practice and values in the relationship between bank and customer. Data indicated that violations of unspecific expectations was perceived as betrayal, and this made restoration of trust more difficult, a finding confirmed by Weber and Carter’s (2003) study of trust in relationships. Deregulation created a huge gap between the customers’ expectations of the savings bank and how they were fulfilled. This gap eroded the customers trust.

13.5 The deregulated savings bank: competition, risk and profit

Deregulation changed the legal framework of the banking sector and the formal basis for structural trust. It was a change in the social organisation of the economic sector, and in the relationship between bank and customer. Banking was now transformed into an industry marked by strong competition. This change of practice and norms changed the premises for interaction and mutual understanding between bank and customer, but the customer was not involved in this transformation. The banks had unexpectedly changed the pre-contractual

basis for mutual understanding. New procedures, routines and role enactment transformed the relational basis for trust and made the bank unpredictable to the customer. Trust eroded. The change in the role of the bank and the bank clerks' enactment of the new roles created open spaces for role negotiation, but customers were unable to negotiate new roles in the first years after the deregulation. Their relationship to the bank was deregulated, or more precisely, the social basis for the relationship was deregulated without the customers' knowledge, acceptance or influence.

Institutionalisation of new bases for trust between banks and customer is a long-term process while deregulation is a rather sudden, unilateral transformation of a tacit contract – the pre-contractual basis for mutual understanding and trust were deregulated as well as the trust relationship. Deregulation transformed the basis for making deposits into the account of trust.

The new savings bank - high prices and lost carefulness

After deregulation, credit was allocated through demand, and the new aims were price and competition, competition and profit. To compete meant to treat the customers differently. The banks started to charge for services that had previously been free; they increased the interest on credit frequently and without warning, and differentiated between customers. One customer summarised the feelings many of them expressed about the banks' new behaviour:

“I thought that the bank wanted me well and would work to do the best for me. There I was wrong. They just think about their wallet. They provide loan approvals without considerations of the consequences for the customer's wallet.”

According to the new bank attitude attractive customers could negotiate better prices from the bank, but most customers were unfamiliar with this and did not expect to negotiate. They had taken for granted that the bank treated everyone equally. When customers after a while discovered that practice had changed, they felt as if the bank was dishonest and had cheated them. Price variation was perceived among customers as a serious violation of their pre-contractual expectations about the values a bank should promote. For a majority of the customer informants equal conditions were an indication of honesty.

As some customers told about the new savings bank practice:¹³¹

“I thought everyone had to pay the same high price on loans – but that is not so. The bank has different prices. I didn’t know until I talked to my neighbour about this. The bank is not fair. I feel that they fool me.”

“I thought the others had the same terms as me. When you deal with a social institution as the bank, you expect fairly the same conduct as when you deal with the public bureaucracy, namely equal treatment. This principle is absolutely when it comes to banks I expect. I hold that it has to do with honesty.”

“I thought the bank treated us customers equally, but no, the bank looks at each of us as a profitable transaction, this is a huge discrepancy between expectations and reality.’

The informants pointed out the new practice in pricing, the variation in interest and that the bank started to charge for services that had previously been free, as important reasons for erosion of their trust in the bank.

One aim of deregulation was to create equal conditions for competition in the financial sector, but within a few years the effect was aggressive marketing of loans, lack of risk assessments, huge economic losses and financial crises. Hard competition, easy access to expensive capital and a high interest level characterised the new credit situation. The politicians urged creative and daring banking enterprises (Nordnes 1993, Imset og Stavrum 1993), but even though the banks were positive about deregulation, they were poorly prepared culturally and had little expertise to handle their new role as competition exposed business (Reve 1990, Nordnes 1993).

Profit aims and expensive credit funds necessitated that the banks charged the highest possible interest and that they promoted a risk seeking credit policy. The high risk was intended to be compensated by a high interest; this was risk pricing. Risk pricing is an approval of subprime loans (Knudsen 2012). High prices should make good profit and some losses could be tolerated according to bank managers (Nordnes 1993). As one manager told:

“We have to take risk to expand and make profit, but we charge high interests on risky credit. That’s how we can earn money.”

¹³¹ The quotations referred here and throughout the chapter are selected because they express main trends in the data material.

A lot of risk projects proved not to be viable. Several risk customers had no plans for paying back their credit whatever interest they were charged. The risk was enhanced by geographical expansion. Before deregulation the local savings bank had almost a monopoly on distributing credit to private households, particularly in rural areas. After deregulation the savings banks were allowed to expand beyond their municipality, but when local savings banks expanded to new areas they were unfamiliar with these customers. New banks often accepted unreliable customers rejected by local banks. In addition had most of the savings banks had low competence in credit work, their focus and education had been on deposits (Nordnes 1993). It soon turned out that the losses became far greater than the banks were able to cover by their equity capital; the earnings were simply too low and the effect was as we know; a severe bank- and financial crisis.

According to the new bank strategies profit and growth should consolidate the competitive power. Credit was the main source of profit in addition to charges, and banks had to compete to attract credit customers. Profit seeking banks advertised, offered, and virtually requested the customers to take loan with high interest. The banks' eagerness to lend money was unfamiliar to the customers, and many of them therefore questioned the banks' responsibility:

"I became sceptical when the bank just gave me the credit, they didn't ask any questions, even though we had not become customers yet."

"How can the savings bank send me letters offering credit? Their task should be to urge me to save my money!"

The customers were used to the careful savings bank that promoted savings in in schools, in advertisements, through their practice and even through their name *savings bank*. Credit had now become an important means in the competition, and customers got huge loans with out questions or considerations from the bank. The deregulated bank's practice was hardly recognizable for the customers and many of them perceived this new and risk seeking credit policy as a violation of their expectations about serious bank practice. The customers expected stable interest, limited access to credit and careful consideration of creditworthiness; the savings banks role was to be responsible and act with carefulness and prudence. From the customer's point of view, the new bank practice was governed by unfamiliar values.

New practice and concerned bankers

The shift in attitude and practise was unfamiliar also to most bankers, traditionally loans had been a scarce benefit and the profit aim was a new focus, as one middle manager about the new policy:

“Previously we had no focus on earning money; we didn’t hear anything about that. We just had to do our job.”

Many of the experienced bank clerks were worried about the credit expansion:

“The best ones among us, the management assert, are those lending out most. Doesn’t our management see the risks this involves?”

With hindsight, the ‘worriers’ were right. A number of the banks proved to have operated in a financially borderland. Some of them operated partly outside of what were legal transactions in the 1980s, but the control mechanisms were weak and partly absent when it came to new and complicated financial transactions (Nordnes 1993).

Experienced clerks and managers spoke about the new behaviour that was expected from them and the transformation of the old savings bank rationality. An old and experienced manager in a little small and independent savings bank made these observations:

In the old days, bank work went on in traditional ways, it was no demands of profit or allocations to fund or reserves, the profit was what it was. Our concern was that we were the local savings bank, that was our mission, we did not consider the market, profit and those matters. We thought tradition, and our work went on year by year. But now we have to do business, we have to take the market into consideration, which is today’s popular way of thinking.”

Customers felt that the change in focus and rationality of the bank happened over night. Most of the customers were not aware of these new bank expectations. They experienced that there was no real competition in the new bank market. The banks had the same prices and it was almost impossible and very expensive to swap banks. In addition most customers lacked information about prices and bank products. In a market “exit” is the solution for discontented customers (Hirschman 1970), but in real life exit is not always an option because there is no real competition or real market. The customers felt that the banks exploited them, as one customer pointed out:

“They say that there is a competition among banks, but that is not the case. The banks have a monopoly on money, they have similar prices and as a customer you are at their mercy.”

Being at the banks mercy was not new for the customers, but the economic consequences were suddenly harder because of the banks' strong emphasis on profit and a change in taxation policy. During the first years after the deregulation, inflation and full tax deduction of interests reduced the credit expenses. At the beginning of the 1990s the factual price on lending increased seriously as the tax authorities limited the value of interest reduction. The frequent increase in interest rates and bank charges made customers feel that they had lost control of their own economy (Nordnes 1993). Those with huge loans could be strongly affected in their disposable income by the heavy rise in credit pricing. Around 1990 the real estate market collapsed and the price and mortgage value of houses were declining; selling the house to get rid of debt created new economic problems for people.¹³² Customers fell into debt and could not afford to pay for their liabilities, and the bank forced some of them to sell their houses at low prices (Nordnes 1993). The savings bank no longer appeared as the customer's steady and predictable collaboration partner, someone they could rely on in economic matters.

The main changes and deregulated bank practices are indicated in the expectation table below.

Table 6 Deregulated bank practice and new values

	<i>Specific practices;</i> tangible, related to practices	<i>Unspecific practices;</i> tacit, related to attitude
<i>Constitutive practices;</i> defining a particular context	1) High interest, charges, 'selling' credit	3) Risk seeking, profit seeking, competing, expansion, great loss, unfamiliar ethical standards
<i>Background practices;</i> social behaviour in general	2) New practices, lack of mutual understanding, focus on credit	4) Business organisation, unfamiliar role, honesty was questioned by customers, 'self- orientation'

To sum up; towards the end of the 1980s and the early 1990s, the bank customers experienced that the pre-contractual basis for the bank - customer relationship had been transformed. Banks performed new procedures and were governed by new aims and values, the familiar bank practice had eroded, and the development of relational based trust was difficult as bank practice was unfamiliar to the customers. They did not know what to expect as the basis for

¹³² This is not unlike the situation in USA and EU in today's financial crisis

mutual understanding was changed. The new risk attitude had resulted in great bank losses, and customers questioned both practices and honesty of the banks. The social bases for trust were undermined on a micro level in the interaction between bank and customer and on a meso level as the bank transformed into a market based, risk and profit seeking organisation that wasted money. The structural bases for trust, macro level trust, were maintained. The Savings Banks' Guarantee Fund protected the assets of deposit customers and the structural bases for trust were not affected.

13.7 Stable, structural bases for trust

In a transitional period (1988-1994), surveys (MMI) showed that the bank crisis eroded banks trust capital. The banks' honesty, ethical standards and competence were questioned, the newspapers wrote frequently about the erosion of trust, and bank management and politicians were concerned about the loss of trust (Nordnes 1993). Trust declined, but there was no exploration of why trust was affected by the crisis. The focus was on the financial consequences and the fear of a breakdown of structural trust in the banking system, which could lead to consecutive collapse of the financial infrastructure. Widespread erosion of structural trust in the banking system could 'infect' and erode the pre-contractual trust in this system. The fear of trust being undermined in the financial infrastructure can hamper inflow of capital into the banking system, with negative consequences for the economy and society; as reduced circulation of money will hamper credit, investments and trade.

Interview data indicated that erosion of trust was a complex phenomenon. The informants in the study of savings banks distinguished between relational and structural trust; between trust in their bank, in the familiar bank clerk, and trust in the financial system (Nordnes 1993). Surveys of trust did not distinguish between bank as a service provider and the banking system, but informant and cross-checking data indicated that trust in the banking system was unchanged; structural trust did not seem to be affected. The bank crisis caused an erosion of the pre-contractual trust in banks, but not the pre-contractual trust in the financial system as such. This was despite the fact that deregulation was a transformation of structural bases for trust. Regulations that should prevent banks to providing more loans than their asset allowed were removed and the risk for loss was increased, but this did not affect structural trust.

Even though customers lost their trust in the bank for a period, as the relational and pre-contractual bases for trust changed, very few customers chose *exit* or few (if any) withdrew their bank deposits and the structural trust did not erode. The high general trust in formal structures in Norway was an advantage for the banks.¹³³ The customers trusted that their deposits were safe and protected by the Norwegian Banks' Guarantee Fund. This was a trust in formal structures; in the Norwegian laws and in the government rather than the banks. In retrospect considered, it appeared that the crisis functioned as a reinforcement of the structural trust in the banking system; the authorities acted as expected, the deposits and customers' money remained safe.¹³⁴

13.8 Deregulated trust: reflexivity and choice

Deregulation was an engine for modernisation of the banking sector. Banks were transformed into modern organisations; as instrumental, profit oriented and goal directed systems. The late modern bank-customer relationship is marked by a new trait: *reflexivity*.¹³⁵ Trust can no longer be taken for granted, but has to be developed through reflexive processes. When a common social basis cannot be taken for granted, mutual understanding is developed through questions, discussions, and negotiations. Social homogeneity and stability is to some extent a precondition for pre-contractual trust, but the late modern society is characterised by frequent changes and social heterogeneity. A common social basis for action cannot be taken for granted to the same extent as before. Reflexivity and choice pervade the late modern daily life (Beck 1993, 1994, Touraine 1995), including the bank relation.

Familiar platforms for social interaction are transformed and private and public organisations are marked by continuous changes and reorganisations. This means that people and organisations have to be reflexive and open for reformulation, development, and specification

¹³³ Norway is among the countries with highest level of general trust (Skirbekk og Grimen 2012)

¹³⁴ Those who lost money directly because of the banking crisis were those who had invested in banking shares and investors co-financing risk projects.

¹³⁵ Reflexivity is here used as a simple version of Bourdieu's idea of reflexivity, as systematic reflection on the unconscious presupposition (categories) of our knowledge (Beck 1994), and in Giddens sense (1993:36), as "reflexive monitoring of action". Beck (1994:176) refers to this form of reflexivity as becoming free from or redefining of structure, and separates this from his approach to reflexivity which is the following: 'the further modernisation of modern societies proceeds, the more the foundations of industrial society are dissolved, consumed, changed and threatened.' Becks' point is that these processes may well 'take place without reflection, beyond knowledge and consciousness' and his concern is with processes inherent in modernisation, while the positions above and including Lash (1994:200) points to that transformation of structures 'forces' reflexivity as 'self-monitoring and active construction'. Reflexivity as reflection related to these processes; transformation of structure, self-monitoring and active construction is the concern here.

of taken for granted, habitual acting patterns and norms. Bank and customer have to be reflexive, interact, negotiate and develop a new, common pre-contractual basis for trust.

An organisation's capacity to be reflexive, to reformulate, and to articulate the pre-contractual basis for trust is an important precondition for successful organisational change. One element in organisational change is clarification and development of a common image of reality, of visions, goals, and strategies. This has to be embedded in a profile, an image of the enterprise's self-understanding which is communicated internally and externally. Profiling, visions, and development of goals are processes where the organisation questions and works with its pre-contractual basis for trust, this is the late modern organisation's self-reflexivity. The outcome of these processes communicates the basis for expectations the organisation directs to itself and what customers and others can expect. Image, profile, visions and goals express the enterprise's self understanding; it communicates how this particular service provider aims to meet the customers' expectations and is the basis for development of trust. The right mix of profile, products and price attract customers in a context ruled by competition and freedom of choice.

Deregulation introduced the market transaction as framework for the bank-customer relationship. The trust relationship was transformed from being based on the customer's confidence and dependency to being based on competition and the possibility of customer exit. The transformation to market competition deregulated customer loyalty, and the trust between customer and bank lost its taken for granted character. Maintenance of trust means to maintain mutual understanding, consequently, the pre-contractual basis for trust had to be renegotiated; the premises for interaction between bank and customer had to be redefined. Or to be more precise, the bank had defined the rational market actor as the pre-contractual basis for the customer relationship. If this should be the platform for mutual understanding, the customer had to adapt to this premise and take it for granted.

The traditional, loyal bank customer was replaced by the idea of a modern, economically rational and calculating market actor. As ideal types market actors are "anyone" to each other; they perform standardised exchanges where trust is based on contracts and formal structures rather than relational ties of loyalty; the idea of a market actor is based on the assumption about the strategic individual who wants to maximise self utility. In practice most savings bank customers do not fit with this model.

13.9 The rational economic actor

The banks had redefined their role to be profit seeking business actors in a financial market. Banks now expected that the customers behaved as rational market actors in a bank market. Interview data indicated that the ideal-typical assumption of the customer as a rational, economic actor is an important part of, in particular, the bank managers' image of the customer. They assumed that the preferences of the customer are complex, that price is one of several important elements in the selection process, and that the importance of price varies depending on person and product (Hagen 1995, Nordnes 1993). Banks spend considerable resources on discovery and segmentation of customer preferences in order to be able to answer the question about what is of value to which customers and what is the basis for their preferences. Explorations of customer behaviour indicated that attractive consumer segments in fact behave as market rational actors with regard to collection of information and choice of provider based on economic utility reflections (Poppe 1990). However, later studies carried out in some larger savings banks show that the customers' preferences in choice of bank relations have an element of price, but qualities such as security, honesty, personal contact, and competence have a decisive impact on the customers' selection of banks.¹³⁶

Market competition presupposes that customers behave as competent market actors. To behave as a competent, rational actor in a complex market requires competence. An ideal market actor has to take the initiative, pick up information, calculate price and risk, judge, and select based on maximising economic utility. The deregulated financial market can be characterised as a mass market with a complex set of products which is difficult to compare. Television, newspapers and magazines dedicated to personal economy present numerous comparisons and price assessments to help the customer to choose in the bank market, but behaving as a competent market actor is time-consuming and demands competence. Trust may compensate for the lack of competence and capacity, and therefore it can be the most rational strategy.

Savings bank customers are very loyal, 88 percent of the respondents said they expected to have the same bank next year (2003). Another study of customer behaviour indicated that only 4 percent of the customers swapped bank in 2009 (FNO 2010, web). Even during the

¹³⁶ These data are based on in-depth interviews with bank managers in 1996 and 1997, which referred to bank internal surveys of the customers' preferences regarding selection of bank.

bank crisis when customers trust eroded and their *voice* said low trust, they could have chosen *exit* to articulate dissatisfaction, but their behaviour was *loyalty* (Hirschman 1970). There is probably an element of convenience in the customer loyalty; relational trust is an additional element. Relational trust capital is developed over time; it provides a bank with strong glue to the customer and a buffer against exit in situations of trust fluctuations. Relational and structural trust provided the banks with a *trust capital* which was large enough to contain the loss of pre-contractual trust caused by the transformations in banking.

Banks compete in a standardised market, services are quite similar and the price variation of the products is rather low. Under such circumstances a bank has to develop advantages that differentiate it from the competitors. One strategy is to work with active trust development (Giddens 1994, Möllering 2006) and development of relational trust.

Relational trust is based on interaction, and this form of trust seems to be the key to trustworthiness in ever more arenas in the public sphere, not only in the bank - customer relationship. Market transactions are dependent on a minimum of pre-contractual trust; the market is not an arena for building trust relations but for economic transactions. The personal customers, however, are not only unilateral economic actors; they are also social actors – they build relational trust and networks. This is to the advantage of the banks. Personal contact and development of relational trust are essential as trust creating elements between bank and customer; it can be the decisive element in the process of selection between banks. Development of relational trust is done step by step and secures long lasting trust and loyalty. Ties of loyalty in addition to the inconvenience of changing bank provide the banks with ‘slack’; a reservoir of trust that makes the customer relation less price sensitive and more robust with regard to exit.

New market actors and new trust configurations

Bank services are a relational product; the service is created in the very moment of production. The experience of it is a construction in the minds of the customers, dependent on fulfilment of expectations and the development of mutual understanding.

Bank relationships are dependent on trust; a general, pre-contractual trust in the concept of banking and in the particular bank, structural trust in banking as trustworthy economic infrastructure, and a more specific, relational trust between the particular bank and the

particular customer. As pointed out, a bank's trust capital is perhaps one of the most important elements of its equity. As other kinds of capital, trust capital will increase and diminish through the activity that takes place. Banks have to provide maintenance and growth - not erosion - of their trust capital. Their competitive challenge is how to generate trust, and how to avoid erosion of it.

The attractive customers could behave as market actors and select between banks. In this situation banks experienced that trust is an essential part of the relationship to the customer. They had to work and compete for a trust they had formerly taken for granted. To re-establish trust between bank and customer a new common basis for trust and a new mutual understanding of the relationship had to be developed.

Trust is the basis of voluntary relationships. It is a key factor for bank and customer when there is market competition – the customer can choose exit. The providers in the financial market have to appear as trustworthy in order to attract customers. Then the customer and the provider have to develop trust through communication and interaction in order to establish a relationship. To be a bank customer means repeated interaction, a customer relationship is a process where the relationship is durable and evolves over time. A lasting customer relationship can be considered as a mutual expression of trust. An indication of distrust, that the relationship is broken, is when the customer chooses exit.¹³⁷ Market competition is driven forth by the “threat” of customer exit, and the challenge to the banks is to maintain the customers' trust, to develop customer loyalty and prevent exit. This requires hard work.

Development of relational based trust becomes a key element in the savings banks' production of services. Customers seek a familiar contact in the bank, either through e-mail, telephone or face to face interaction (Sparebankforeningen 2003, web). Technology has become a platform for development of relational trust. E-mail, for instance, opens up an individual dialogue between bank and customer in a way that is partly characterised by the proximity provided by the encounters across the desk. At the same time this is a very flexible arena, contact can take place whenever it is suitable and needed. Late modern production of services is not based on equal treatment and standardised services; it is based on tailoring of products and the development of relational trust between individuals. On the other hand, as

¹³⁷ A relationship can last despite distrust; for instance if someone is in a strategically weak position.

there now are less frequent face to face encounters between customer and bank, the few interactions are of critical importance to strengthen the relationship. Weak trust can easily result in exit, while strong relational ties and trust can provide a higher threshold for customer exit, a 'slack' for mistakes.

The customer's trust in a particular bank is based on several elements, and it is an empirical question about what the individual customer prefers. However, an analytical distinction can be drawn between customers who first and foremost emphasise price elements, and those who emphasise familiarity, service, and competence as basis for trust. A bank decides the configuration of the two groups of elements in the development of its profile and products.

Organisational change transforms the social configuration of bases for trust. The transition to market relations has in the long term perspective led to increased importance of relational trust as a means in social coordination and organisation beyond the domain of the primary groups. These transformations have changed the roles and behaviour of both bank and customer, and gradually has new pre-contractual and relational bases for trust been taken for granted. After about 15 years from 1986, in 1999, the trust in banks was restored (table 4), but the configuration of trust bases are not restored to the pre-crisis configuration. Restored trust does not mean that the pre-contractual basis for trust is the same, for instance to-day as it was before deregulation. Restoration means that customers now have adapted to deregulated banking. A new common basis for pre-contractual trust and development of mutual understanding between bank and customer has been established and the customers have learnt how to interact in the market competition. There is also a new generation of customers not accustomed to savings banks with a non-profit orientation and with social responsibility. The new generation has institutionalised marked competition as pre-contractual basis for trust.

13.10 Bad banking and the trust paradox

The changes in the role of the bank and the bank clerks' enactment of the new roles diminished trust. At the same time this created open spaces (Seligman 2000) for development of new bases for trust. To restore trust, bank and customer had to develop a mutual understanding of the new roles and norms. "The account of trust" between bank and customer is dynamic, to keep the balance, deposits have to be filled in regularly. It is a reservoir rather than a reserve.

The extensive bank crisis led to a consecutive loss of trust because of bad banking, the banks' wells of trust were drained off from two sides; the customer lost trust because the familiar bank disappeared and also because of mismanagement. In one sense this is two sides of the same coin; new practices and new values resulted in mismanagement, unfamiliar bank practice and loss of trust. The loss of trust is compound and has different causes. The trust paradox indicates that in situations of social change, the need for trust increases because change increase risk. At the same time social change means that the social basis for trusting erodes. This process drives a reconfiguration of trust bases and restoration of trust.

In the case here, the loss of trust in banks was enhanced by the effects of mismanagement in banking. The banks had to work to restore trust on two levels; to develop a new common platform for mutual understanding with the customers and to acquire new competence to perform good banking under new conditions. The first mentioned task has to be performed in interaction with the customer; the second task is first and foremost an organisational task, but the effects of this work influences customer trust.

Market competition requires competence from both customer and bank. Competent customers expect competent service. To appear as trustworthy, banks must have competent staff with sufficient knowledge to meet the customers' demands and questions. Bank clerks have to know their products, they have to be able to communicate with different kinds of customers and to make independent judgments and choices in order to develop trust and provide competitive service (Ellingsen 1998). This seems obvious, but the bank crisis was worsened by the lack of these skills.

The case bank in this study for instance, was severely hit by the crisis and suffered hard loss of trust.¹³⁸ It was the first bank to be subject to governmental administration (Nordnes 1993, Ellingsen 1998). This bank started a major internal transformation process that included a program for development of formal competence for middle managers and clerks to develop competent staff as a platform for trust. Competent service was an important factor in the competition for customer and an element in the development of new platforms for relational

¹³⁸ Internal customer surveys indicated that this bank still had quite severe trust problems in the late 1990s (confidential bank data), when trust levels were restored on national level according to MMI surveys (see table introductory in this chapter).

and pre-contractual trust (Ellingsen 1998). Through improvement of competence, the bank established new platforms for mutual understanding in the organisation, the internal communication was enhanced and the employees acquired analytical tools to reflect upon their experiences with the customers.

With hindsight, could the trust crisis have been avoided? Probably not as the transformations of banking were comprehensive and took place quickly. Administering credit in accordance with political aims did not demand or develop any expertise in risk management, therefore the banks were poorly qualified to handle both the risk and the huge access to credit they faced after deregulation. As pointed out previously the banks were not culturally prepared to act as competitive market actors. The erosion of trust because of mismanagement was a sound warning to the banks. The most important structural base for trust was not affected by deregulation and customers did not choose exit from the savings banks or withdraw money.

Perhaps there could have been less erosion of trust related to the transformation of the relational and pre-contractual basis for mutual understanding, if the banks had been more aware of the tacit contract with the customers, and transformed the social bases for trust more slowly and in dialogue with the customers. On the other hand, the introduction of market rationality and new bases for trust institutionalised new social patterns and meaning systems. Maybe loss of trust is an inherent element of this process; that social change is not feasible without trust effects? But that does not mean that trust disappears.

13.11 Trust and social change

The aim of this chapter was to demonstrate the analytical potential of the composite concept of trust to explore the erosion and fluctuations of trust related to bank crisis. The empirical example was an analysis of how deregulation transformed the trust relationship between customer and savings bank.

The discussion of trust and deregulation is also related to the questions raised in the introduction; can changes in economic organisation transform trust relations and how does the relationship between trust and social change. The aim here is not to provide a comprehensive and exhaustive discussion of these fundamental issues, but to draw attention to some findings. The main point in the study was that deregulation as a change in economic organisation had

trust effects and social consequences on the macro, meso and micro levels and pre-contractual, relational and structural bases for trust were affected. The conclusion is that the causal chain described by Zucker (1986) can go either ways, both social and economic changes can have trust effect. This conclusion is perhaps somewhat obvious as the premise laid in the introduction was that economic organisation was a form of social organisation. The focus in the following is therefore on the causality between trust and social change.

At the macro level, deregulation changed the legal framework of banking and opened for the transformation into a financial industry. Banking was one of the first sectors that changed into competitive, profit seeking organisations, a change that affected pre-contractual, relational and structural bases for trust, although the last mentioned base was affected to a lesser extent. On the meso level changes in the bank organisation, bank culture and new practices caused a loss of trust among customers. These trust effects were first and foremost generated by the changes in pre-contractual and relational bases for trust. On the micro level the familiar platforms for mutual understanding disappeared as pre-contractual and relational bases for trust was under transformation. Formal structures can be changed with the stroke of a pen, changes of social meaning systems are long-term processes. Deregulation transformed the social frame for the economy and the effect was market relations as platforms for interaction. Market relations and profit aims are now taken for granted as governing values in ever more relationships and as platform for the social construction of trust.

In the deregulation example changes in economic organisation created open spaces in the familiar social patterns of action and interaction. Open spaces reduce predictability and increase social risk, processes that may cause loss of trust. At the same time open spaces function as arenas for renegotiation of social contracts and for renewal of taken for granted social patterns (Seligman 2000). As social bases for trust are dynamic, and have to be maintained through interaction and acknowledgement of mutual understanding, open spaces are arenas for re-creation of trust bases through interaction and stepwise development of mutual understanding. These processes contain the potential for social change and renewal and should be in focus for better understanding of social change.

The empirical example indicated that social change transformed the social foundations of trust, and this leads to the conclusion that social change is about transformation of our social bases for trusting. Trust is a social quality, and transformation of social organisation affects

the bases for trust as well as the dynamics between different forms of trust. Social change transforms social organisation and social perception – the way things are done and the way we think about them, the tacit perceptions and taken for granted patterns; what we trust, where we place our trust and how stable this trusting is.

Deregulation and organisational transformations are planned and goal directed changes in social organisation, while changes in trust bases are unintended consequences of social change, and the consecutive trust effects are unnoticed as trust effects. However, unnoticed does not mean that they are invisible. On the contrary, changes in trust may appear in many disguises; for instance as exit from a relationship, silent (or open) resistance against change, lack of cooperation or voices of disappointment and complains. More precise knowledge of what and where we place our trust will provide better insight in the social construction of trust.

Contributions and further research

Social change involves reconstruction of reality. In the short run it is about introducing something new and unknown; in the long run it is about the institutionalisation of new social patterns for action and interpretation. These processes diminish familiarity and expand the unfamiliar and unpredictability. This is the trust paradox; the familiar basis for trust is diminishing, while the need for trust is increasing. The practical consequences of this finding are that to prevent loss of trust in situations of social change, it is necessary to be aware of trust bases and trust effects. They are social constructions that have to be made explicit. An examination of which of the pre-contractual, relational and structural trust bases will be affected by change and how they will be affected is recommended as one of the preparation measures for planned and intended changes in social organisation. On the basis of this knowledge it is possible to prepare for, avoid and minimise loss of trust. This can, for instance, be through making explicit the implicit elements of the pre-contractual basis for trust and renegotiating the pre-contractual basis for trust. This means developing new bases for mutual understanding as dialogue, not as one sided and unexpected change, such as in the bank case. Other measures can be to enhance the possibilities of developing relational trust or strengthening structural trust bases. Loss of trust caused by unintended social change can be repaired by the measures suggested above; however, it will probably take a longer time, as the deregulation case shows.

The main contribution of this chapter is a perspective on the relationship between the bank crisis and trust, and on the dynamics between trust and social change. The exploration of these questions has also discussed trust and social change in a short and long term time perspective. There is a gap in the trust research when it comes to the relationship between trust and time. This chapter contributes to increased knowledge about this subject, but there is still much research to do on this and the relationship between social change and economic and social change and trust. This is a huge and understudied topic that needs further exploration both empirically and theoretically.

Social bases for trust are dynamic, and have to be continuously maintained through development of mutual understanding. These are complex social processes that need further research through questions for instance about the social contracts and patterns which are under transformation, what characterises the open spaces, and which elements, participants and processes are important for renegotiations of social contracts.

Further exploration of the relationship between economic change, social change and trust is needed; this is so far almost an analytical black box. One reason for this is probably that change and process have not been the analytical focus in trust research. The analyses that can be provided are dependent on the analytical tools; the methodology and theories. The researchers 'gaze' and analytical tools mould the discoveries. Studies of trust as process and social construction are dependent on methodology and theory that explores these elements. This chapter and the thesis aims to demonstrate the work and fit of the composite concept of trust and grounded theory methodology as analytical tools for explorations of the social construction of trust and the relationship between trust and social change.

In the consecutive, final conclusion, the composite concept of trust is discussed further as an analytical tool for exploring trust and social change. This will demonstrate the applicability, in grounded theory methodology called the work and fit, of the analytical tool.

14. FINAL REFELCTIONS: TRUST CRISIS OR TRUST PARADOX?

*'I do not put forward the "true" meaning of trust.
There is no Platonically essential notion of trust.'*¹³⁹

– RUSSEL HARDIN

Trust is what holds people and societies together. Without trust society would not be able to work. Social interaction would not function and the relations between people and institutions would erode. Mending social relations and institutions would have to start with building trust and trust building requires that we take the perspective of the other into account in our actions.

Trust is 'located' in the diffuse, social interstice between the psychological self and the social self. This is a dynamic space where the process of trusting can be influenced. Understanding what trust is, how it works in social relations, how it erodes and can be rebuilt if lost is therefore essential. For that we need a conceptual framework that makes such analysis possible. This is what this thesis aims to provide.

According to Möllering (2012) one has to put a stronger emphasise on conceptual development related to trust as a dynamic process. There is a gap in the knowledge of trust as a dynamic process and the relationship between trust and social change. I hold that a study of the relationship between trust and social change is not feasible without a dynamic conceptualisation of trust.

This thesis is based on a dynamic conceptualisation of trust as a *composite concept*, and it has explored trust as a process of social construction and the dynamics between trust and social change. The composite concept is generated through a grounded theory methodological study of trust processes in an empirical context of social change and the concept is then grounded in sociology. The focus has been on exploring how grounded theory can be related to existing theory, discussed as the potential for theoretical grounding.

¹³⁹ Hardin 2002 :xx

14.1 Mutual understanding – a key to trust

Trusting is an active process at the micro level. The trust literature is scarce on the moment of trusting, on how and what that triggers the moment of transition from doubt or indifference into trusting. To develop knowledge about these processes it was necessary to explore how trust was socially constructed empirically, and grounded theory was an appropriate methodology for doing this (chapter 4-5). After the empirical discovery of the elements in the trust process and the construction of the composite concept of trust, I started to question how the empirical conceptualisation could be related to and integrated with existing sociological theory. This became the theoretical ambition of the thesis – discussion of the composite concept and its elements in relation to sociology (chapter 6-10). One main finding in the empirical material was that *mutual understanding*, or lack of it, is a key in trust processes; either it is development, maintenance, reconstruction or erosion of trust. Development of trust is based on a “leap of faith” and mutual understanding is the trigger of this leap, the trigger of taking the risk of trusting (chapter 6). A common social basis with *pre-contractual*, *relational* and *structural* elements is the platform for mutual understanding, which is achieved through fulfilment of expectations, or the assumption that the trustee will fulfil the trustor’s expectations. The social bases are analytical labels, the empirical content of the bases not fixed entities, but social processes related to different social domains.

Mutual understanding does not mean total agreement or total understanding; it is, at a minimum an acceptance of common rules and fulfilment of these. For the trustor, mutual understanding is a satisfactory level of acknowledged mutual understanding. It means that the potential trustee indicates acceptance of a common definition of the social situation and that she will act in accordance with what she perceives are the trustor’s expectations.

The acknowledgement of acceptable mutual understanding and the trigger point for the leap of faith is an individual construction with a social platform, and based on the perception of signals from the trustee. It can be as an immediate impression or developed step by step during the interaction. In trusting based on ascribed or mediated familiarity, mutual understanding is based on a perception or belief that one’s expectations and assumptions will be fulfilled (chapter 8, 9). Trust in politicians or in a company brand, can for instance be based on a belief that these can fulfil ones expectations. Depending on the situation and the relationship it can turn out that the potential trustee decides that there is no mutual

understanding, and there will be no leap of faith. Or that there is a leap of faith, but it turns out that expectations are not met, and the leap of faith was a mistake, resulting in erosion of trust. Studies of expectations will reveal how and why there is a lack of mutual understanding and loss of trust.

Everyday interaction is based on trust, it is a social coordination mechanism based on taken for granted mutual understanding about social norms and action patterns, that there is a common pre-contractual basis for action (chapter 7). Without this basis, social predictability is low and trust is under pressure in situations where common social bases cannot be taken for granted. In these situations the social bases for trust have to be made explicit and subject for reflection, for instance in situations of social change, in social risk and danger or in cross-cultural encounters. Social change and modernisation transform the social bases for mutual understanding. To maintain or restore trust the pre-contractual, relational and structural social bases have to be re-constructed through reflection, negotiation, communication, and dialogue to clarify norms, obligations and interpretations to develop new mutual understandings. A formal structure, for instance the passing of a new law or regulation can lead to redefinition of a pre-contractual basis for trust by instituting new patterns of action. When these are taken for granted a new basis for pre-contractual trust is developed (chapter 13).

14.2 Trust and social change – mutual understanding and the trust paradox

The main title of the thesis is '*The trust paradox*'. The trust paradox is a metaphor for a relationship between trust and social change and the dynamics between erosion and reconstruction of trust (chapter 11 and 13). It is a finding in the empirical analysis, and is therefore not an explicit element in the theoretical grounding of the concept. The trust paradox is an analytical construction made years after the empirical grounding of the concept and is an observation generated through the application of the composite concept in various research projects conducted in my work as an applied researcher.¹⁴⁰

¹⁴⁰ The concept has been fruitfully applied in the study of trust processes in other contexts such as micro credit for women (Lotherington and Ellingsen 2002, 2005), (Ellingsen & Lotherington 2008), in regional development (Ellingsen 2003), partnership in regional development (Ellingsen 2005), in various minor studies of cross-cultural cooperation (Ellingsen 2006, 2006a), in analyses of trust dynamics across nursing cultures (Ellingsen et al. 2007), in analyses of trust in internal customer relations (Tobiassen et al. 2007), in studies of gender culture in the Norwegian army (Ellingsen et al. 2008), in studies of electronic interaction in hospitals (Ellingsen &

Social change may erode the familiar social bases for trust, this is perceived *as if* trust is disappearing and therefore the need for trust increases. However, I hold that trust does not disappear into thin air; it is not a static quality that vanishes, but a dynamic process of social construction. Everyday social interaction depends on trust. Loss of trust increases the need for trust, but the opportunities for developing trust disappear. This observation can be further specified; when trust erodes, it is the familiar bases for trust that erode, the need for trust increases but the possibilities to meet this need has changed. Trust has not disappeared; it is the familiar social bases that erode – not the capacity for development of trust. Trust is dependent on mutual understanding and new platforms have to be developed for mutual understanding. This is the engine for trust processes.

An increasing need for trust indicates that the social bases for trust are under transformation, and that the familiar foundations for trusting are eroding. At the same time this process is a source for development of new bases for trust – the erosion of trust is at the same time the source of its reconstruction. Trust is like the phoenix bird. It does not disappear – it is reconstructed through development of new bases for mutual understanding (chapter 11, 13). But trust does not reconstruct itself. The development of mutual understanding is, as the concept indicates, a mutual process of social construction. Reconstruction of trust demands ability, capacity and intentions of trust development.

Social change transforms the pre-contractual bases for trust; established truths and norms become invalid, and new social contracts and patterns have to be established to develop new social bases for trust. These processes increase the need for formal structures such as organisations, rules, regulations and standardisation that clarify the bases for trust (chapter 10). Even though structural bases for trust have become more prominent, relational bases have not lost their importance. Dependence on personal relationships and networks, the relational bases for trust, is still prevalent features. The rapid pace of social change and the corollary transformation of pre-contractual bases for trust, increase the development of structural and relational bases (chapter 12, 13).

Aanesen 2008), studies of innovation in public sector (Ringholm et al. 2011) and in studies of trust and innovation (work in progress).

14.3 Erosion of trust or transformation of trust bases?

If trust is the answer to the question of social order, the social glue that makes social life and societies possible, what happens to the social fabric if trust erodes? Perhaps this fear is what triggers concern about erosion of trust and trust crises. If there is a crisis of trust, what are the indications of a crisis?

Risk increases the need for trust. Increased risk consciousness (Beck 1993), risk intensification (Giddens 1993) and the culture of suspicion (O'Neill 2002), such as the fear of terror, can indicate that pre-contractual trust as a societal quality is under pressure. This pressure can be enhanced for instance by globalisation and intensified cross cultural interaction. Or the opposite may happen, globalisation and cross culture interaction can facilitate development of new, common pre-contractual bases across cultures, regions and nations. The concept of mutual understanding does not presuppose cultural homogeneity, but cultural heterogeneity means that the pre-contractual basis for trust is different and can to a lesser extent be taken for granted. If the implication of globalisation and the fear of terror is a feeling of loss of pre-contractual trust, does this mean that there is less trust on societal level? The answer can be *yes* in the sense that the *feeling of loss of trust* may have expanded.

On the other hand the answer can be *no*, there is only a reconfiguration of trust bases at the societal level. Pre-contractual bases for trust have eroded and structural bases have expanded. Laws, regulations, standards and organisational measures such as control, surveillance and guards are established to reduce potential risk and increase trust. Cultural heterogeneity demands awareness of cultural differences, clarification of norms and action patterns and negotiations over platforms for mutual understanding. These interactive processes involve the development of relational and gradual pre-contractual bases for trust. In addition there are established formal structures which regulate cross cultural interaction, for instance anti-discrimination laws.

Laws and standards are bases for structural trust, made to suspend potential risk and clarify obligations and responsibilities. Creating a common set of laws has a precautionary function in terms of establishing a common basis for predictability and can facilitate development of pre-contractual trust in a long term perspective, given that the law practices are predictable and not perceived as corrupt. Extensive use of surveillance in public places is one effect of

fear of terrorism and violence, extensive control of passengers on flights is another example of diminishing pre-contractual bases for trust and expansion of structural bases. This development can indicate that pre-contractual trust is replaced by fear and formal control mechanisms.

Structural trust bases function as platforms for suspension of particular risks specified in the structure, but do not suspend other potential risks. Structurally based trust in public space is another kind of social coordination mechanism, rather than a taken for granted pre-contractual trust in that others will behave predictably and that everyday life will go on as usual. Pre-contractual trust, on the other hand, functions as a taken for granted suspension of unspecified risk. Pre-contractual trust is an ontological quality, a feeling of security related to “being-in-the-world” (Giddens 1993). The development of structural trust mechanisms is costly, while pre-contractual trust is inherent in socialisation.

Further questions...

The issue of erosion of trust on a societal level raises several questions that need further exploration. For instance; is it a wanted societal development that pre-contractual bases for trust erode while structural bases expand, or is this an inevitable process in the complex late modern society? Is the reconfiguration of pre-contractual bases of trust with structural bases an indication of diminishing trust at a society level, or is it only about transformation of trust bases, in the sense that the social basis for trust does not matter as long as there is trust? Do new structural bases for trust suspend fear, or do the structural mechanisms have to be incorporated into the pre-contractual bases for trust? Another set of questions is related to whether reconfiguration of trust bases and development of new bases are sufficient to catch up with eroded trust bases. Can development of structural bases for trust compensate for the erosion of pre-contractual trust bases at a societal level?

Another question is whether relational trust is an alternative basis for trust on a societal level? Does relational trust substitute for structural bases at the macro level? Absence of structural trust bases hampers social and economic development and in the discussion of structural trust, the development of structural bases for trust was a prerequisite for modernisation. Does technological development, the rise of new global professional, political and economic elites enhance a reintroduction of the importance of relational trust bases for trust on macro level?

Or have pre-contractual bases for trust not lost importance, but have been supplemented with structural bases? Furthermore, does this indicate that in the future, relational trust will gain a kind of pre-modern role also at the societal level, facilitated for instance by technology?

The question of the relationship between trust and social change is a huge issue that need further exploration and the composite concept of trust is one tool in this exploration.

14.4 Social change and trust – the empirical example revisited

Social change and trust consequences are discussed as long and short term processes, respectively as institutionalisation of trust in the savings banks and as erosion of trust after their deregulation (chapter 12 and 13). In the first example trust development starts from a relational platform. Gradually and in parallel with the emerging Norwegian state, structural bases for trust are developed. Pre-contractual trust is institutionalised in a dynamic between relational and structural trust bases and through experiences in recurrent bank crises. In the deregulation case there is an erosion of the pre-contractual bases for trust, while the relational bases in some cases erodes and in other maintains trust. Structural based trust prevents exit from the bank system, and it is a platform for interaction and negotiation of new bases for relational trust. Gradually this leads to institutionalisation of new bases for pre-contractual trust. The deregulation example showed how the structural based trust was maintained throughout the crisis, while pre-contractual trust bases had to be re-constructed, and the relational bases were either maintained or re-constructed, depending on the individual case.

In both the deregulation and institutionalisation example is the configuration of trust dynamic and inherent in social interaction. The antecedents of trust are in the social bases, which are the platforms for mutual understanding. Trust is emerging as an opportunity in the space between us, in the social elements which we have in common; it is socially constructed, maintained and re-constructed.

Is there a difference between the two processes – the long term and short term transformation of trust bases?

I hold that social change is about transformation of the social bases for trust. Modernisation processes such as differentiation, specialisation, and rationalisation transformed social

relations and expanded social complexity. In a long-term perspective the effect of these processes is a society with highly specialised work roles, bureaucratic administrative structures, and further complexity. Structural bases for trust expanded on societal level, and relational trust bases have gradually lost some of its importance as platform for societal coordination. The institutionalisation of structural bases for trust in savings banks was an important social innovation as it moved people's savings from being kept at home into circulation and investments and is an example of the societal importance of trust.

Internet banking has gained ground over the last ten years and is a technologically mediated form of trust which presupposes a pre-contractual trust in the technological structure. The Internet is disembedding the relationship with the customer, it is lifted out of the local place and the service is performed independently of time and place. In the financial market, price and product have gained importance as criteria for selection between banks. The role of relational trust in this process has to be further examined to reveal whether and how the trust relationship between bank and customer has been transformed as an effect of social and technological changes.

If trust processes in banking are relevant as examples of dynamic trust processes in general, one finding in this study is that the process of continuous transformation of the foundation for trust is the normal situation (see table 4 over trust variation in chapter 13.1). It is the social dynamics of trust, and if there is no transforming event, this process runs as imperceptible steps in the maintenance of the social bases for trust. This thesis discussed the development and modernisation of the banking system in a long term trust perspective. Modernisation is a general social transformation process going on at different levels and phases in the society. Transformation of the bases for trust and variation in the configuration of trust forms are general social processes and should be analysed as that.

Crises and erosion of trust are discussed as macro processes, and as processes at the meso level related to the bank organisation. The analytical point of departure has been trust in the relationship between the customer and organisation, the analytical focus has not been on trust as an emotion and as individual trust crisis. Erosion of trust at the micro level related to personal experiences among individuals is a different issue. Individuals can have trust crises of several kinds; trust can erode slowly or vanish during a few seconds.

Individual trust crises as personal emotions have not been the focus here, but findings in the savings bank study indicate that trust crises at the personal level are first and foremost about transformations in the relational and pre-contractual bases for trust. If friends, a partner, or children disappoint the trustor too much, then trust erodes. Depending on the situation, the alternatives are exit or reconstruction and re-creation of the trust basis. Reflexivity, dialogue, negotiation, interaction, and, according to Weber and Carter (2003), forgiveness are among the tools for establishing a new basis for mutual understanding and development of relational trust. Longitudinal and in-depth studies are necessary to explore these processes. Perhaps, in the long run, the pre-contractual basis for trust can be restored or a new common platform for the relationship can be established.

Reconfiguration of trust bases in the sense that eroded bases for relational trust are supplemented with formal structures such as contracts or agreements are not very likely. At the personal level, new trust bases and mutual understanding have to be developed as a process of re-creation of trust bases and not a reconfiguration in the sense that relations are substituted with structures. However, the transition to Internet banking (and other Internet-based services) indicates that in the relationship between person and organisation this is a possibility, but this has to be further explored.

So far, the conclusion is that the trust paradox is an indication of dynamic trust processes. It will hold that trust is under continuous transformation as an element of social change. Or rather – social change is about transformation of our social bases for trust. Reformulation and re-creation of trust bases are pervasive, on-going processes in our time characterised by continuous changes, and social change demands reflexivity (Giddens 1993)

14.5 A global trust paradox?

Reflexivity (Giddens 1993:38) involves the examination of existing praxis and reforming it. It is an input in the process of creation and reconfiguration of trust bases. Reformulation and re-creation of trust bases are about developing mutual understanding as a reflexive process. Mutual understanding is one ingredient of the social glue, and the platform for making the leap of faith, suspending doubt, and bestowing trust. Development of mutual understanding can be a challenge, not only when the pre-contractual bases for trust are under transformation, but also when these bases are absent or minimal.

Re-creation of bases for pre-contractual trust is an on-going process that involves developing mutual understanding of new social promises and obligations. Over time these are transformed into a taken for granted social basis for interpretation and action – a gradual development of a new basis for pre-contractual trust. Communication and interaction, step by step, provides relational trust and every little step that confirms and maintains mutual understanding is contributing to the institutionalisation of this pattern and of a basis for pre-contractual trust.

Arenas for face to face interaction are critical in situations characterised by low trust or when trust bases are under transformation. Social networks and personal interaction have become increasingly important. Facebook and similar Internet based social networks facilitate development of mediated relational trust, as do use of smartphones and similar tools. The increased possibilities for developing relational trust and social networks are facilitated by structural trust, such as trust in the Internet. They are new and globally expanding bases for contextual familiarity. Globalisation, for instance as dissemination of Western popular culture and youth culture, can function as a basis for pre-contractual trust and for developing relational trust. The current focus on narratives, visions, information management, advertising, and branding can be perceived as a redefinition and creation of new bases for pre-contractual trust. I suggest that marketing is a presentation of a 'narrative' about an organisation and an invitation to trust this 'narrative'. These narratives provide information one can get familiar with and base expectations and pre-contractual and relational trust on. This mediated information provides a feeling of familiarity without having anything in common, and can be a platform for mutual understanding. The development of relational trust over distance or across cultures has to be based on a minimum of pre-contractual trust in the technical structure, and in the other, as someone with predictable behaviour and intentions. This means that there must be some basic mutual understanding which can be facilitated by globalisation.

There is however a global trust paradox. Globalisation involves in one sense encounters between strangers, which mean that there can be few bases for pre-contractual trust. Cultural heterogeneity creates a pressure on pre-contractual trust. So globalisation creates an increasing need for trust, but the pre-contractual bases can be few and fragile and structural bases are mainly related to the nation state or a particular cultural context. This means that the

creation of relational bases for trust is of vital importance, they are the platform for developing mutual understanding and gradual institutionalisation of pre-contractual bases for trust. International rules, regulations and treaties are structural bases for trust established through gradual development of relational and pre-contractual bases for trust. New relationships grow deeper through step by step interactions and gradually some premises will be taken for granted, given that mutual understanding is confirmed through action. These processes establish the pre-contractual basis for trust and agreements can be formalised and function as structural platforms for trust.

On societal level there are continuous efforts to restore and recreate trust bases. I asserted in the introduction chapter that there is a trust paradox; that social changes affect and impair trust, and at the same time require trust – the needs for trust increase while the bases for development of trust is eroding. A closer examination of trust processes on micro and macro level indicates that the trust paradox has to do with a shift in time. Social change creates open spaces in the social bases for trust, and social change runs faster than the reconstruction of trust bases. A temporal or constant ‘undersupply’ of trust is one effect. There are also other possibilities; social risk and fear increase faster than the possible development of trust bases – and this can result in a situation of trust crisis. To facilitate the development of trust it is necessary to have arenas for social interaction, communication, and development of mutual understanding.

Further exploration of the interaction between different forms of trust and processes of social change can provide increased knowledge about trust processes as well as societal transformation, as social change is changes in the social bases for trust. This requires deeper studies of the transformative qualities of trust.

14.6 A crisis of trust?

If the wells of trust are drying up – is this an indication of erosion as a loss of trust on a societal level, and a symptom of social disintegration and erosion of society’s social basis? If that is the case, we have a crisis of trust. The analyses presented in the thesis (chapter 12, 13), based on the composite concept of trust, indicate that there is not a crisis of trust in the meaning ‘loss of trust’. On the contrary, the challenge is that the trust dynamics in our time are too rapid and too extensive. The comprehensive, continuous and fast rate of social change

contributes to speed up the on-going reconfiguration of trust. This accelerating trust dynamics appear as crises of trust, as drying wells and insufficient pumps.

The trust paradox means that the demand for trust runs parallel with the erosion of social foundations of trust. An exploration of these processes as configuration of different bases of trust at the macro level indicates that erosion in one basis of trust can trigger expansion in another basis. Trust is often an unnoticed social quality, it is taken for granted and not noticed until it erodes or is absent. The development of trust is likewise, (and erosion of trust, too, for that matter) an element in ordinary, everyday social processes. This means that there are a lot of invisible and unexplored social processes going on that maintain or erode trust. The composite concept of trust is an analytical tool to explore these processes.

Further research in different empirical settings is necessary to prove the work and fit and strength of the concept; the explanatory power of the concept. Relevant further research questions might include exploring the social basis for trust in contexts of social and organisational change, in cross-cultural encounters, or in situations of introduction of new regulations, technology or new practices.

14.7 Limitations and further research

The work with this thesis has been conducted over years and in parallel with my employment as a researcher. I have chosen an in-depth approach to trust, and discussed my conceptualisation in relation to classic sociological works, in particular Luhmann (1979), Zucker (1986), Giddens (1993) and Seligman's (2000) work on trust, in addition to Weber's work on history and economic history (1985, 1987). The focus has been on trust as a process of social construction and on the relationship between trust and social change. This means that there are other trust relevant topics which are out of scope for this work, for instance subjects such as trust and culture, trust and deception, and trust and control. Further research could explore the analytical power of the composite concept to understand the role of trust in these social processes.

This thesis is first and foremost a theoretical exploration of an empirical conceptualisation of trust as a process of social construction and a discussion of the relationship between grounded theory conceptualisation and sociological reasoning (chapter 3-5). The savings banks study

(chapter 12, 13) exemplifies how the composite concept can be applied to analyse trust processes and this study has been a platform for generalisations about trust processes. Grounded theory methodology recommends studies of similar processes in different empirical settings (theoretical sampling) to strengthen and expand the empirical grounding. Similarly designed in-depth studies of trust processes from other sectors than banking would have strengthened the concept further, but this has not been practically feasible. This could indicate that the foundations for generalisation of the findings are weak. That is not the case, I hold.

As pointed out previously in the thesis, the composite concept of trust has been applied in several research projects on various subjects and empirical contexts throughout my work as an applied researcher. The application of the concept has been conducted as a form of theoretical sampling process in various social contexts and the concept has proven work and fit. That means it has demonstrated analytical power to explain and understand how trust processes unfold and the role of trust in various social processes and contexts.¹⁴¹ In the thesis I have chosen to use only the savings bank study as an example to enhance stringency and to communicate the inherent relationship between the empirical grounded concept and the analytical tool.

14.8 Contributions and further research

Through use in applied research the composite concept has demonstrated relevance for generation of knowledge about trust processes and social change, and its analytical power has been strengthened. The generalisations of analysis in the thesis have therefore been based on the experiences of empirical work and fit, and that the elements in the concept are grounded in existing sociological theory. This means that the concept has both empirical and theoretical grounding and demonstrates potential for further research on the subject trust and social change

Much trust research has focused on the relational dimension of trust. Pre-contractual and structural trust bases are related to less examined dimensions of trust, in the trust literature these are often merged into the concept *institutional* trust. This is an underexplored, but ambiguous concept. It includes two different dimensions in the process of trust development; meaning systems and formal structures. In practical life these are not separated, but I hold

¹⁴¹ See note 140 in this chapter for references.

they should be separated in analyses of trust processes. Formal structures makes generalisation of trust possible. Generalisation is facilitated by the possibilities of sanctions and because the structures clarify a platform for mutual understanding. Development of pre-contractual bases for trust is about production of meaning and is an element inherent in all social activity, in the creation of relational and structural bases for trust. The suggested distinction in the thesis, between structural and pre-contractual bases for trust needs further exploration and can be related to the discussion about the qualities of institutional trust (chapter 10). Related to this is also the multilevel character of trust. The composite concept of trust has been applied as a multilevel concept to analyse processes at the micro, meso, and macro level, but the relationship and connections between the levels need further research.

Then there is the question of terminology and trust. Möllering (2012) suggests that the term *trusting* should be used to indicate the process character of trust; that is how trust is produced and used. This thesis contributes a process perspective on trust. The *composite concept of trust* and *mutual understanding* conceptualise trust as a social construction and sensemaking process. To follow Möllering's suggestion, the concept could be called *the composite concept of trusting* to emphasise the process perspective in this work and to sharpen the distinction between trust as a social quality and trust as a process. On the other hand, how sharp is the distinction between trust and trusting? What is the difference between trust as a quality and trust as a process - when is trust not a social process - given that the bases for trust are a social quality, and not stable, but subject to change. These questions need further research.

The theoretical and methodological contributions from this thesis are the development of the idea of theoretical grounding of empirical grounded concepts. This expands the theoretical potential of grounded theory and provides a bridge between grounded theory and existing theory. The theoretical grounding is demonstrated through a discussion of the potential of integration between grounded theory conceptualisations and existing theory (chapter 5). The discussion concludes with a model of integration between empirical and theoretical grounding. This is exemplified by the sociological grounding of the empirical grounded composite concept of trust (chapter 6-10).

The main theoretical contribution to trust research is the development of a dynamic perspective on trust as a process of social construction at the micro level based on *mutual understanding* as the trigger of trusting and *pre-contractual, relational and structural* bases as platform for making the leap of faith. These concepts demonstrate key elements in the social construction of trust, and the composite concept show how the trust process can be analysed with a temporal dimension, both as a short- and long term process. The concept presents a perspective on the relationship between trust and social change. The analytical tools for analysing trust processes are supplemented with a model of expectations to analyse and characterise expectations as elements in the micro level study of trust processes.

This work has also demonstrated the *composite concept* as a dynamic and multi level analytical tool for studying trust processes at the micro, meso and macro level, and in short and long term perspectives. The application of the composite concept has provided new insights in the complex dynamics in trust processes that otherwise would have been undetected. The work has established that theoretical grounding of empirical conceptualisation enhances the analytical power of a concept. Further, a sociological grounding of an empirical grounded trust concept has expanded the sociological theory of trust and demonstrated how empirical studies can supplement existing theory.

This study provides new analytical perspectives on trust as a multifaceted concept and a dynamic social process. It generated new empirical knowledge about trust and has demonstrated that there is analytical power in the conceptualisations to explore trust as a dynamic, multi-level phenomenon. And it has raised new and further questions about trust and the relationship between trust and social change.

The theoretical part is a sociological exploration of the core elements of the composite concept of trust; mutual understanding, and pre-contractual, relational and structural social bases. Sociological theory is integrated into the concept as a sociological discussion of the different elements in the concept and this provides a theoretical grounding of the empirical grounded composite concept of trust. Through this, I hold, it provides a further theoretical exploration of trust as a social phenomenon. The empirical part provides an examination trust processes at the micro, meso and macro level through application of the composite concept of trust. The empirical basis of sociological knowledge about trust is expanded through integration of a grounded theory, and there is generated new insight in trust processes in

various social contexts. The composite concept of trust has also generated new questions related to the role of trust in social change.

Has the generation of the grounded theory of trust contributed in expanding the sociological insight in trust? The aim of generating grounded theory is to contribute new empirically based knowledge, which the grounded theory of trust has done through the development of the composite concept of trust. The composite concept highlights a new core concept, *mutual understanding* and the three social bases as conditions for trusting. The concept provides deeper insight into the process of trusting, and focuses on it as a process of social construction. This conceptualisation of trust draws attention to trust as a basic social process and key issue in sociology. The discussion of the trust paradox and the relationship between trust and social change contributes to deeper insights into the social role of trust and points out how social change and trust interacts. In the author's view the theoretical elaborations on various aspects of trust and the sociological grounding of the composite concept have expanded the sociological knowledge about trust.

The methodological part raised the question about how the empirical grounded theory of trust can be integrated into sociology and concluded, at the end of chapter 5, with the introduction of a model with four levels of integration. To recapitulate, the four levels of interaction were *separation*; grounded theory and sociology are separate communities of knowledge, *incorporation*; sociological elements are used in the generation of grounded theory, *integration*; grounded theory is worked into the sociological body of theory and *synthesis*; grounded theory and sociology are merged into a new unified theory. The question is whether this is more than an integration of grounded theory into the sociological body of theory. Can the work in the thesis be characterised as a *synthesis*, as a new sociological theory of trust as a process of social construction?

As pointed out, the theoretical work in the thesis is an integration of sociological theory into a grounded theory concept. The integration is a sociological elaboration on the grounded theory of trust, and I stated above that this contributes to new sociological knowledge and new empirical insight. Sociology extends the content and analytical power of the grounded theory, and the analysis provided in the thesis are empirical examples of sociological analysis of trust.

I therefore hold that these analyses can be regarded as both grounded theory and sociological analysis of trust. On the basis of this I conclude that the thesis presents a synthesis of grounded theory and sociology into a unified whole characterised by the empirical work and fit of a grounded theory and embedded in a sociological theoretical frame and grounding. Further research is needed to explore the analytical strength of the grounded theory as a synthesis and a new unified sociological theory of trust.

14.9 A final comment....

This thesis started with questions about the dynamics between trust and social change; how does rapid and widespread social change affect trust? And the other way round – how does trust affect change; are changes in trust an effect or a cause of social change? The work with this thesis has convinced me that this is a wrong question; the relations between social change and trust are not a question of cause and effect; *social change is about change in our social bases for trust. Change transforms the basis for developing mutual understanding on which trust hinges.* Perhaps not every social change has trust consequences, the challenge is to be aware when social change affects trust and work to maintain or re-construct trust.

Scholars have questioned whether we are facing a breakdown of trust in our society. This thesis is an inquiry into this complex and important question and it is an attempt to push our knowledge about trust and trust processes ahead. I also think that this work contributes with optimism on this question. Trust is not vanishing; it is our social bases for trust that are changing. Trust appears to be under continuous construction and reconstruction at the same rapid speed as our societies change. Social change is transforming our bases for trust; the wells are not drying out, but perhaps the pumps are not being sufficiently maintained?

A more pessimistic approach would be to assume that some pumps are in danger of being severely damaged; particularly with regard to the conditions for development of pre-contractual trust related to the public space. The fear of terror intensifies the development of subgroups and subcultures; the general separation between ‘insiders’ of a social group and the ‘outsiders’ of the group seems to be increasing in parallel with increasing socio-cultural differentiation. The consequence of this is that relational trust is strengthened among the insiders and that the pre-contractual basis for trust between insiders and outsiders is under pressure. On the other hand, there are formal and technical structures that provide bases for

structural trust world-wide and which facilitate mediated relational trust. In the long run, these processes will probably strengthen pre-contractual trust – at least among a globally expanded group of insiders.

Increase in cross-cultural encounters will demand reflexivity and negotiation of the social basis for interaction. In the short term, increased social heterogeneity may diminish the basis for pre-contractual trust although in the long run, globalisation can probably expand it. But there are two main conditions that have to be protected to secure trust; these are 1) the social spaces for developing mutual understanding and 2) the freedom to choose exit, that is, not to trust as a way of reducing our sense of vulnerability. Mutual understanding and exit are two necessary social conditions for developing trust. Mutual understanding is a door into the “Other “, and without the possibility of “exit”, there is no trust, but only dependency.

The works on trust by Niklas Luhmann have been an important source of knowledge and inspiration in this doctoral thesis and my other works on trust. Every new reading of his challenging book from almost thirty five years ago; ‘*Trust and power*’ (1979), has provided further thoughts – which is an important function of knowledge. I will therefore conclude the thesis with the following quotation from Luhmann (1979:84):

‘The very multitude of the ways of creating trust makes it fruitless to search for general formulae. Rather one is forced to recognize that it is just this multitude of possibilities which provides some safeguard against the breakdown of trust in society. Trust is created – one way or the other.’

Appendix – collection and selection of data

The empirical basis for the analysis and generation of the composite concept of trust is a qualitative, grounded theory based in-depth study of the trust relationship between customer and savings bank. This appendix provides information about the empirical data collected as the basis for the initial generation of the grounded theory of trust. I have chosen to present it in an appendix since the initial generation of the concepts is not the focus of the thesis and is thoroughly described in Nordnes (1993).

Validity and reliability

Qualitative studies are well suited to identifying causal sequences and tracing the processes involved in enactment of change (Campbell 2004:79). The analysis of trust examples in chapter 11, 12, and 13 is first and foremost, based on qualitative data and a constructivist perspective. The premise is that empirical data is not objective social facts, they are social constructions developed in the interaction between researcher and informant; they are selected, interpreted and constructed (Charmaz 2008).

Some of the aspects related to collection and selection of data for theory generation has been described in the methodological part. Here is a presentation of some of the challenges related to the selection, collection and construction of qualitative data, in traditional methodology, discussed as questions of *reliability* and *validity*. These questions are relevant in grounded theory methodology also, but they are addressed differently; as questions of conceptual *work* and *fit* in the relationship between data, concepts and empirical context. Work and fit means that the concept and grounded theory has explanatory power with regard to the empirical processes in question, and this has been discussed in the thesis. As the thesis addresses the relationship between grounded theory and traditional sociological theory, it is relevant to make some reflections on the data material in the light of traditional methods.

Qualitative and quantitative studies are different constructions of knowledge and should be evaluated on different foundations. In practice, though, objectivist criteria function as tacit premises, and among hard objectivists, qualitative studies can be perceived as no more than narratives without potential for generalisations.

The validity and reliability of qualitative studies have to be evaluated on their own premises. According to Guba and Lincoln (1998), *trustworthiness* is one of two sets of criteria for evaluation of the inquiry in constructivist research. Even though the criteria are developed within a constructivist perspective, they are relevant in evaluating qualitative research in general. Trustworthiness is built up of four elements – *credibility*, *transferability*, *dependability* and *confirmability*. These elements correspond to conventional benchmarks of proper scientific inquiry but they have a different content and emphasise different processes. In addition, different perspectives in qualitative research may not have corresponding interpretations of the four elements. There are, for instance, differences between critical theory and constructivism with regards to this (Kincheloe & McLaren 1998, Guba & Lincoln 1998). It is therefore necessary to define explicit criteria for the evaluation of qualitative work. Explication of criteria can prevent an overly positivist interpretation of the criteria (Strauss & Corbin 1998).

Credibility refers to the correspondence between findings and reality, corresponding to internal validity. Evaluation of credibility will vary with ontological and epistemological paradigms, with the perspective on reality and on how, or whether, reality can be represented. *Transferability* is related to the extent findings are relevant to generalising and how they correspond with external validity. Given the interpretative and naturalistic basis of qualitative research, generalising can be considered as an ‘explanatory power’, as an ability to explain in similar situations (Strauss & Corbin 1998:267) or as a reshaping and anticipatory accommodation (Kincheloe & McLaren 1998). The third element is *dependability*, corresponding to reliability; this refers to stability and the possibility of replicating the study. Given the complexity and fluidity of social life, replicating contexts or findings are hardly possible (Law 2007), but research should be able to reach very similar theoretical explanations following the same research step in the gathering of data and analysis, according to Strauss and Corbin (1998:267). The last element is *confirmability*, corresponding to objectivity and relates to distance and neutrality in the work (Guba and Lincoln 1998:213, Haavind et. al. 2000). Representing the material fairly, giving the informants a voice independent of the researcher, and applying a comparative approach are techniques that can contribute to controlling bias (Strauss and Corbin 1998). Alternatively bias or more precisely, the researcher’s background, herself and her views, can be considered as a resource in the research process, but this demands reflexivity and openness about background (Olesen 1998).

Collection of interview data – focus, access to the field and informants

‘Sometimes the setting itself comes first – an opportunity arises to investigate an interesting setting’ (Hammersly & Atkinson 1993:36). This quotation has some relevance in describing the choice of setting and sampling of informants. As previously pointed out, I was familiar with bank and had observed over years the radical changes the sector was going through. I had followed the emerging bank crisis from the inside over several years and had easy access to interesting data. When I started on my master thesis, the trust in banks was at a minimum – so the question of trust between bank and customer was a relevant topic in several ways.

The aim of the data collection was to get as comprehensive material as possible, given available resources. The bank–customer relationship was considered as a case, but this was not a methodological choice of a case study methodology, but it was a choice of object to study (Stake 1998:86) as data was analysed through the grounded theory methodology. The focus in the qualitative data collection was on how deregulation and the consecutive bank crisis transformed the trust relationship between bank and customer.

The collection of data is based on the premise that trust is a social quality developed and maintained as processes of social construction. This means that the empirical exploration of trust is made as a study of the social relations between bank and customer. The aim was to get a thick description (Morse 1998), to gain insight in the informant’s sense-making, their experiences of the relationship and what they were actually doing in the interaction.

The analytical focus was on the dynamics between banks and customer, and relational data was collected through structured and open in-depth interviews (Hammersley & Atkinson 1993) from both sides of the bank counter. This material was supplemented with informant’s narratives of experiences they felt were relevant for understanding their trust in bank and banking. The guiding research questions were: How did bank and customer perform their roles? What did they expect from each other with regard to actions, routines, and attitudes? To what extent were their expectations fulfilled? Why or why not? Did the customers experience changes in the relationship after deregulation? Was they satisfied with the bank and did this change after deregulation? Did the informants trust the bank as customers, or was trust eroding? How was trust developed? What strengthened and weakened their trust in the bank?

Access to the field and informants

Bank data was collected from interviews with employees and management at the head office and two local branches of a Northern-Norwegian savings bank group, which was severely hit by the crisis. To contrast this, data was also collected from a small, local independent savings bank in Trøndelag, which was almost unaffected by the crisis. The aim for the data collection was to gain insight in how the banks had changed their competitive strategies and how they worked to attract and keep the customer's trust.

Interview data was first collected in the period 1990 – 92, when the bank crisis in Norway was at its peak. The grounded theory of trust is based on this material which consists of as 10 in-depth customer interviews and 10 in-depth interviews with bank clerks and management. In addition there are several interviews with three key informants. They are a customer from a local countryside bank, a bank manager and a clerk. The customers were average middle class Norwegians who had been bank customers for at least 10 years. There were a few more males than females, the age varied between 25 to 50 years, and apart from three customers from the countryside, the rest lived in the town. The selected customers were articulate, some were distantly acquainted with me, and others were suggested by the bank clerks.

In addition to these customer informants, there are about 100 cross-checking talks/interviews with various customers over a period of 10 years. The cross-checking was done to prevent bias and selective perception of only the elements fitting in with the existing observations and thoughts (Altheide & Johnsen 1998, Denzin 1998:327). In addition to these informants, national surveys (chapter 13) and bank customer surveys confirmed the lack of customer trust in the banks. Quantitative data from large surveys of trust in banks provided a longitudinal study of transformation of trust between bank and customer. The trends indicated in the quantitative material were rather congruent, and supported the findings in interviews and the cross-checking materials.

Interview data from bank consisted of interviews with 10 bank employees; clerks, management and middle management who were interviewed in the period 1990-91. The management informants were male, the clerks were female. This is the same gendered pattern as in the whole banking group. All the informants had more than 10 years of experience in banking. The bank employees were interviewed about how banking was transformed after the

deregulation and crisis. All the customer quotations referred in the thesis are from these interviews, and employee materials are from this data and the data material described below.

During the period 1996-99 the data material was extended with almost one hundred hours of structured interviews with bank managers and bank clerks. They were interviewed about how banking was transformed after the deregulation and crisis and the banks' strategies to achieve customer trust in a new financial structure (Bye and Ellingsen, 1996, Ellingsen 1999). On a group level these informants had the same characteristics as the first 10 bank informants, except that there also were informants with less than 10 years of experience from banking. The bank interviews were supplemented with internal bank material, such as customer surveys, internal evaluations, plans, internal reviews, various documents, and advertising material and observation data from several meetings with the banking group management in the same banking group as in the first study. The bank and customer data were further supplemented by articles from two regional ('Nordlys' and 'Tromsø') and four national newspapers ('Dagbladet', 'VG', 'Dagens Næringsliv', and 'Aftenposten') during the period 1989-92. In addition customer views were systematically collected from letters to the editor about bank in the two local newspapers of the same period, and more infrequently from three of the national newspapers. These variety of data sources, various slices of data as Glaser & Strauss (1967) call it, were supplementing the data collected through interviews.

Biased material findings?

If there is a bias in the empirical data, it is that the customer's voice is probably more focused than the bank's views. As previously mentioned I had two years of various working practice from two different banks in the period of strong regulation of banks. Even though this was 12 years before the study, my experiences were still useful as a basis for asking relevant questions. In addition to several friends in banking, I was married to a bank manager who had worked his way upwards in the system. As mentioned previously, this background was as a resource in several ways; it gave access to deep and wide knowledge, and made me quite independent of 'gatekeepers', (Hammersley & Atkinson 1993, Marshall & Rossman 1989:63). I knew whom to ask and what to ask about and had been following the transformations in banking from the inside for 15 years, both from banks in the countryside and from saving banks in three north Norwegian towns.

However, the contextual familiarity and focus of study could have resulted in bias. One danger was to take the perspective of the banks, but in practice it was rather the opposite. I was on the customer's side in a sense – and when findings were presented for customers, they recognised the findings. An additional risk was that bank informants did not trust me; most of the informants knew that I was married to a manager in the upper management. My experience was that the informants trusted me, perhaps because they knew that I was familiar with their situation, or perhaps they found it interesting and satisfying to have a reflective talk about their work.¹⁴² A good research interview is a dialogue between two equal partners, and when theoretical knowledge meets practical experiences through reflections and dialogue, this can contribute to new insights for both (Haavind et. al. 2000). Dialogue and reflection are based on a concept of symmetrical knowledge – the knowledge in the field is equal in worth to the scientific knowledge.

The informant data provides unique material from customers and savings bank employees in a turbulent period of transformation, but it also has a general relevance for understanding how financial crises can affect trust. Data was interpreted, categorised and analysed through grounded theory methodology, which is appropriate for explorative studies, to get thick descriptions and to discover social patterns (Glaser and Strauss 1967). Grounding theory in data, generating, and discovery are analytical processes dependent on the researcher's theoretical sensitivity, and not on testing of hypothesis generated by logical deduction from a priori assumptions.

When I presented my findings to bank management, clerks and customers, they all recognised my research findings. What does it mean that the analytical constructions were experienced as familiar to the field? The informants recognised my descriptions of their experiences and the analyses of how trust was constructed. Do this indicate that I have grasped and interpreted the informants' experiences, that their voices have been a part of the research process? Or is it that the findings are trivial and non-scientific or that the analysis has voiced some tacit experiences in the field? That the theory work and fit?

¹⁴² Researcher experiences from several interviews I have conducted have confirmed this – the appreciation of a reflective talk.

The role of research is to develop new insights and knowledge, but what are the criteria on new findings? Is it that the field recognises the analysis? What if the analysis are not recognised - does this mean that the researcher has done a poor job and created a totally new and for the field, unfamiliar story, or are they excellent and new discoveries? How should this be evaluated – as new insights or wrong interpretations of data?

These questions can be reduced to methodological questions concerning trustworthiness and the relation between analysis and description. One position is to separate analysis and description. The description of the empirical field is the data and has to be recognisable for the stakeholders. The challenge in this position is that there is a large plurality out there. Which description is valid and reliable? Data and analysis are social constructions, if there is diversity in the description this contributes to increasing the validity of the material. On the other hand, capacity sets a limitation on diversity – how should the range for sufficient diversity in descriptions and data be defined? Reliability has to be maintained through the use of ordinary scientific tools, through systematic methods, transparency, and reflection. The aim of data collection was to explore what had caused the lack of trust and whether or how it could be restored. On the basis of the diversity of the collected customer data and congruent findings, I hold that the material is regarded as sufficient.

Historical data and document studies

Document studies of the development in the Savings Bank's Act, the deregulation of the Norwegian banking system in the 1980-1984 and the governmental measures to handle the crisis in the late 1980s and early 1990s are important background material to analyse the institutionalism of the structural and pre-contractual basis for trust between savings bank and customer. This material consists of Official Norwegian Reports (NOU), white papers, draft resolutions and bills (Stortings proposisjoner og meldinger) in addition to publications from the Norwegian national bank (Norges Banks skriftserie).

The study of institutionalisation of structural trust in the Norwegian savings banks is based on an interpretation of bank history and the Savings Bank Act. There were no historical data or studies that explicitly discussed trust in the savings banks at the time of the generation of the composite concept of trust. The analysis of the institutionalisation of trust in savings banks is my interpretation of the historical material, and my (re-)construction of this process. The

historical material consists of savings bank history, historical economic analysis, banking laws and novels where the relationship to the bank was one of the elements in the story.

At first glance, some of the dilemmas raised by the historical analysis do not seem to fit well in with dilemmas related to qualitative research in general. A further look though, reveals similarities. Questions of trustworthiness of interpretations are relevant. Even though the researcher does not have direct influence on informants, such as in an interview situation, historical research is based on the researcher's interpretations of primary or secondary sources. This study of the trust processes is based on secondary sources, which are material that is selected, collected, interpreted, and presented by others (Tuchman 1998). Secondary sources were sufficient here, as the analysis is not an extensive historical study, but a study where historical data are used to illustrate an analytical point such as in the chapter discussing the development of structural bases for trust as an element in social modernisation.

The historical data material was generated from local bank history, historical analysis of social and economic development, and law books about the Savings Bank Act. These sources present various perspectives on banks and banking and they are written for different audiences. Local bank history is written for the general public. Most of these histories, but not all of them, were not written by professional historians, and they were descriptive rather than analytic. Local bank histories have mainly a positive foundation; they aim to describe the local importance of the bank as an economic and social institution and as an engine for economic development. The reader has to take this in consideration as a possible bias in the material and be aware of it in the interpretation of the material. Comparing the various local bank histories and other historical literature provided a picture of general trends in the relationship between banks and their social context.

History is written for scholars, and the literature used in the thesis is selected from recommendations and references. I am no historian and do not have sufficient background knowledge to decide the quality of these analyses, but have to rely on the recommendations and competence as a social scientist. In addition to this material, I use the Savings Bank Act and a few books written about this law. Some of this material was targeted at legal professionals and the rest was aimed at bank managers. This material is not totally unfamiliar (on the basis of some education in law and banking), but I do not have sufficient competence to ask critical questions related to it. As a whole, the material has given a rather concurrent image of the studied historical period. The described trust configurations are analytical

constructions based on interpretations of the material and the assumptions related to the composite concept of trust. It turned out that trust was not a topic in any of the historical sources I have used.

Finally, not every aspect of trust that is discussed theoretically is exemplified in the empirical examples. The examples are selected because they have a common subject: trust and credit relations. They throw light on different elements of this relationship; they exemplify trust at different analytical levels and illustrate the analytical potential of the composite trust concept. In addition, the examples represent the two stages in generative theory; substantive theory and the composite trust concept as formal theory.

To sum up the data collection; the findings in the interviews are expressions of single customer experiences. The trend in these findings is supported by the rest of the material and the cross-checking (Nordnes 1993, Ellingsen 1998). Consequently, I am convinced that the interview findings are relevant as descriptions of the trust relation between bank and customer in the period 1989-92 when data was collected for the grounded theory study. Even though this is some years back, later data collections (theoretical sampling) have indicated that the conceptualisation of trust as a process of social construction has general relevance.

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