DO I WANT TO DO BUSINESS WITH YOU?
A PROPOSED MODEL OF HOW TRUST AND TRANSPARENCY IMPACT ORGANIZATION AND STAKEHOLDER INTERACTION

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Organizations have relationships with a wide variety of stakeholders, and those relationships range from highly positive to highly negative. It is argued that positive reciprocal organization-stakeholder relationships are based on mutual trust, and that organizational transparency is a potentially powerful antecedent variable. Little attention, however, has been devoted to the interaction of these three key variables – trust, reciprocity, and transparency. Consequently, the authors propose a new model that incorporates these variables.

The new model proposes trust as an antecedent of interaction between an organization and its stakeholders, and that transparency is a critical intervening variable (see Figure 1). It is posited that both organizations and stakeholders evaluate the trustworthiness of the other in an effort to determine whether or not information will be shared and ongoing interactions will be established. It is also argued that constituents will take an action desired by an organization to the degree that constituent evaluates the benefits outweigh the risks in taking such an action.

The transactional risk leads to stakeholders' perceived trustworthiness of the organization or stakeholder group. The most widely used model of trust, developed by Mayer & Schoorman (1995) and Schoorman, Mayer, & Davis (2007), assumes that individuals are evaluated along the lines of ability, integrity, and benevolence – high evaluations lead to trust.

This proposed model assumes that a similar evaluation process occurs within an organization when that organization considers how much information to make public or to share with a particular stakeholder (the transparency factor). Similarly, if stakeholders evaluate an organization to be deficient in any of these three variables then they will have less trust, and therefore will perceive the organization as being less transparent. As a result stakeholders will be less likely to take the risk of further engagement with that organization.

The proposed model is grounded in the social psychological theory of reciprocity. According to Fehr & Garchter (2000), reciprocity implies “that in response to friendly actions, people are frequently much nicer and much more cooperative than predicted by the self-interest model; conversely, in response to hostile actions they are frequently much more nasty and even brutal” (p. 159). There are two types of reciprocity: positive and negative. There is a wealth of research documenting the reciprocity phenomenon (Gachter & Falk, 1999; Berg, Dickhaut & McCabe, 1995; Fehr & Falk, 1999). Fehr & Gachter (2000) applied reciprocity to employee-organization relations stating that employees reciprocate employer generosity by giving more effort than self-interest alone might predict. This model proposes that positive reciprocity occurs only under the conditions of trust and transparency outlined above.

The transparency and trust model of organization and stakeholder interaction below begins with the perception of the organization (see Figure 1). The organization has a perception of each specific stakeholder group, and that perception is a function of that group’s perceived ability (Pa), benevolence (Pb), and integrity (Pi). Essentially, an assessment is made regarding benefits versus risks of trusting. If the benefits are perceived as greater than the risk ($B > R$), that stakeholder group will be trusted, which will likely lead to higher organizational transparency. Conversely, if $Pa+Pb+Pi$ leads to $B < R$, distrust of that stakeholder group will occur, which will lead to opacity or very little organizational transparency.

The interface between the organization and stakeholder groups involves the organization’s transparency efforts, which results in how stakeholders perceive the organization. Stakeholders then go through a very similar process as did the organization. Stakeholder perception of the organization is a function of $Pa+Pb+Pi$. These perceptions lead to a transactional risk assessment and a level of trust or distrust. High levels of trust increase the probability of transactions occurring, hopefully to the mutual benefit of the organization and the stakeholders.

In conclusion, the proposed transparency-trust model provides a better perspective of how transparency and mutual trust impact probability of mutually positive transactions between an organization and stakeholder groups.

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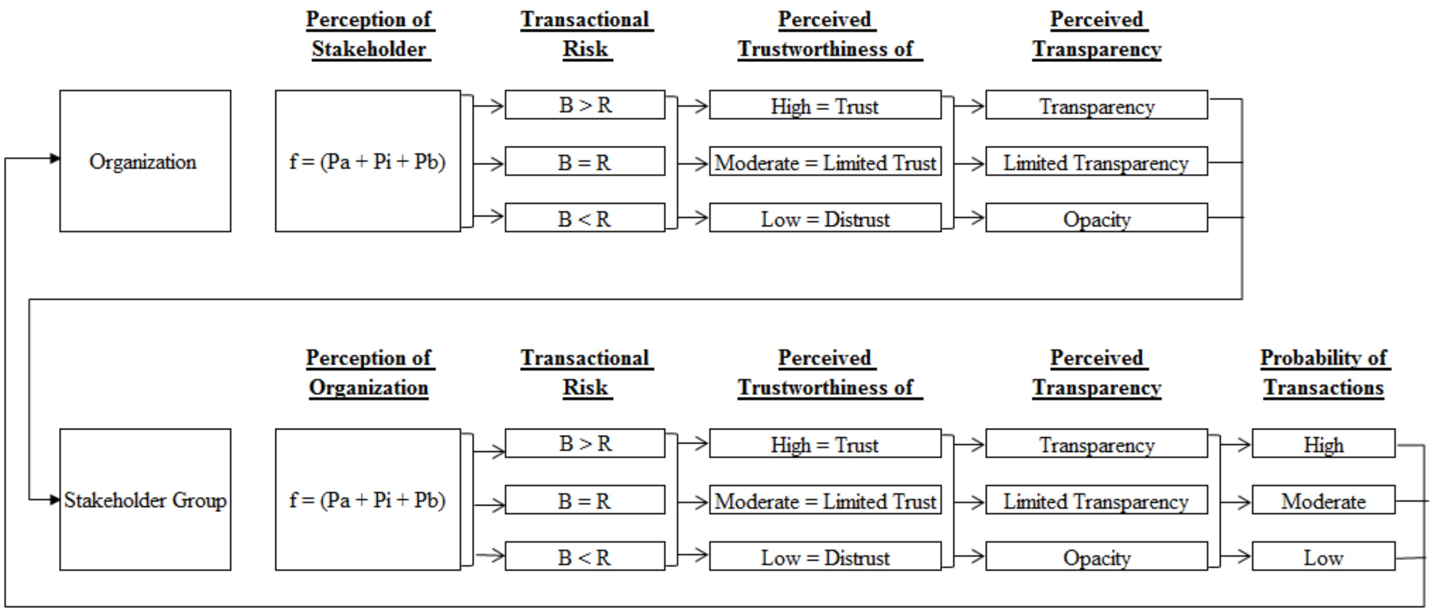
Figure 1 Transparency and Trust Model of Organization and Stakeholder Interaction



Perception of Stakeholder/Organization is a function of perception of ability (Pa), integrity (Pi), and benevolence (Pb).
B > R, perceived benefits of interaction outweight perceived risks of interaction, and so on.