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Full Length Research Paper

A call for trust in cross border business

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Organisations expanding their business to African countries place particular emphasis on risk management and tend to follow known practices applicable to their own context. An investigation was conducted into the experiences of the implementation of a risk management framework involving in-depth interviews with role-players of an East African subsidiary of a South African financial institution. This research studied the impact of socio-cultural differences on the implementation of a risk management framework in East Africa and in particular considers the role and influence of trust. The implementation of risk management practices is often experienced negatively, and the importance of trust as a key element in the process is frequently not sufficiently considered. The management of risk should not only be based on financial criteria, but should also be influenced by psychosocial factors. Disregarding an important factor such as trust is counterproductive to risk management risk.

Key words: Trust, cross border business, risk management.

INTRODUCTION

Intensified international competition between organisations has resulted in global expansion to emerging markets, becoming an important growth strategy (Buchner, 2002; London and Hart, 2004; Moriarty et al., 2009). Organisations that operate only in developed markets fare worse than those with a foothold in developing markets due to globalisation, changing market conditions, change and innovation, economic hardship, and a decline in consumer spending (Moriarty et al., 2009). However, three out of five cross-border deals fail to live up to expectations (Pearl, 2010; Van Tonder and Roodt, 2008) – a disappointingly high failure rate considering the time and effort spent on such ventures.

Owing to the risks involved in business in general (Hubbard, 2009), organisations expanding their business to African countries place particular emphasis on the management of risks (Schomer, 2006) and tend to adhere to known, proven practices that have worked for them in their own context (Arnoldi, 2009). However, these practices might be contrary to the manner in which business is transacted by organisations and employees in other countries. Cross-border businesses fail as a result of the focus being mainly on “hard” factors such as infrastructure and return on investment (ROI), while the importance of critical psychosocial or “soft” issues, such as cultural integration, are often underestimated by expanding organisations. Social, cultural and behavioural factors such as differing organisational and national cultures and values may negatively influence the performance of cross-border businesses, the building of relationships, and the creation of trust (Gertsen et al., 1998; Martin, 2010; Renn, 2008; Schomer, 2006).

The importance of building trust between organisations is based on the belief that trust enhances business performance. Indeed, trust is identified as an important component that renders partnerships, strategic alliances and networks successful (Sako, 1998). Robson et al. (2008) state that substantial agreement exists among interorganisational exchange researchers, thus supporting the notion that trust is vital to relational exchanges. Trust is said to be important in building a competitive advantage because it leads to superior information sharing, aids the lowering of transaction costs, and facilitates investments in relationship assets

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(Zaheer et al., 1998; McEvily and Zaheer, 2006).

There is relatively little empirical evidence to substantiate the normative bias that trust enhances performance in cross-border ventures, which prompts the need for a better understanding of the way trust influences the performance of international alliances (Robson et al., 2008). The implementation of risk management practices is often experienced negatively, and the importance of trust as a key element in the process is frequently overlooked. The management of risk should not only be based on "hard" financial criteria, but should also be influenced by psychosocial factors. These "softer" issues will have to be considered at all stages of the expansion process, with emphasis on the due-diligence phase (Galpin and Herndon, 2007). Disregarding an important factor such as trust is indeed counterproductive to risk management. This article argues that a need exists for the building of relationships and the fostering of trust between organisations expanding across borders into Africa, especially within an African context where relational interaction is valued (Hall, 1976, 1985; Hofstede, 2010).

The research reported on in this article explored the expressed need for fostering trust through relational interaction during the implementation process of a risk management framework. The value, importance and influence of trust in a cross-border business context will be presented here, which may inform the way businesses implement their expansion to emerging markets in order to reap the benefits associated with trust as an important component of successful alliances.

LITERATURE REVIEW

The context of the implementation of a risk management framework forms the backdrop to the discussion of trust in the transacting of cross-border business. Uncertain economic conditions and hesitant recovery from the world-wide economic recession have prompted a renewed focus on risk management (Butler, 2010). The purpose of risk management is to ensure operational efficiency, enforce regulation compliance, support sustainability, and guarantee reliable and responsible reporting (Meyer et al., 2010). The South African firm in this study conforms to the rigorous BASEL II compliant risk management frameworks. Host regulators in the East African country outside of the foreign firm's jurisdiction have not yet adopted the BASEL II framework and therefore have no legal obligation to employ the strict risk management framework. However, BASEL II is applied throughout the South African firm and in its East African operations as the adopted best practice for the management of risk. Risk management is a strategic activity (Andersen, 2006) and lies at the core of a financial institution's operations; however, traditional risk management frameworks assume a linear pattern of cause and effect with regard to risk and do not sufficiently consider the psychosocial element: The social, cultural and behavioural factors influencing risk management.

Kersten (2001) explains that conventional organisation theory portrays organisations as rational and ordered entities, where decisions are made in a reasonable and predictable way. In reality, organisations are in a constant state of flux, dealing with conflict and problematic forms of behaviour. Von der Ohe and Martins (2010) explain that, in the current economic climate and fast-changing global business domain, trust among role-players in organisations has become essential for survival, and that leadership in organisations should be acutely aware of the impact of trust levels on business. It is therefore, important that leaders focus on trust-enhancing forms of behaviour, particularly in times of change. According to Siegrist et al. (2007), trust is forward-looking and can be a force for change. When an organisation experiences change, such as the introduction of a new policy or framework, trust can aid the transition to a new state of stability.

The concept of trust has been extensively explored by a variety of disciplines across the social sciences (Lewicki and Tomlinson, 2003; Von der Ohe et al., 2010). For example, Rousseau et al. (1998: 395) define trust as a psychological state of vulnerability based upon positive expectations of the intentions or behaviour of another. Rousseau et al. (1998) explain "relational trust" as a specific form of trust that is based on the relations between the trusting person and another. Yet another form of trust is "calculative trust", which is based on an understanding of the past behaviour of another person or entity and imposes constraints on future behaviour. Trust has been identified as a key aspect of successful conflict resolution, enhanced cooperation, information-sharing, and problem-solving (Lewicki and Tomlinson, 2003). Indeed, Covey and Merril (2006) describe trust as the key to all relationships and the glue that keeps the organisation together. A recurring theme in the description of trust appears to be the importance ascribed to the idea of having confidence in something other than oneself (Earle, 2010). Research shows that there is no consistent prioritizing of trust elements (Bélanger et al., 2001) but that several components are closely interrelated and interdependent. Elements that are considered essential to building and maintaining trusting relationships include confidence, integrity, competence, empathy and openness (Bélanger et al., 2001; Colquitt et al., 2007; Earle, 2010; Möllering, 2006; Solomon and Flores, 2001).

In a society with strong relational norms and traditions, the principal form of commitment is informal (Beamish, 1988). The need for trust arises from the interdependence we share with others to obtain, and not to frustrate, the outcomes we value. In high-context cultures, such as in East Africa, members emphasize relational connections, and collectivist, intuitive and contemplative values (Hall, 1976, 1985; Hampden-Turner and Trompenaars, 1997; Hofstede, 2010). Significantly, Doloi (2009) found that in relational partnerships all parties work together as a cohesive team to achieve an agreed outcome, and that an element of risk exists in-so-far as we often encounter situations in which we cannot always compel the cooperation we seek (Lewicki and Tomlinson, 2003). Three major factors – communication, trust and confidence, and joint risk management – influence the relational connection and impact on relational partnering success (Doloi, 2009). Communication was identified as the most influential factor affecting relational partnering success, while trust and confidence were found to be mutually inclusive for effective communication. These findings have a direct influence on developing capability for joint risk management within the partnering organisations.

The implementation of a risk management framework is one of the mandatory activities of a financial institution and involves change management. It is dependent upon a receptive organisational culture which allows for change and is also accommodating of the concept and practice of risk management. A large percentage of such activities fail to perform to management's expectations, in most instances, because of a lack of understanding and incorrect management of the psychosocial factors (Bowen, 2010). Failure to consider a more holistic and balanced way of managing risk by exploring issues such as the need for trust, may ultimately impact the financial performance and long-term success of an enterprise.

Bélanger et al. (2001) state that trust is critical for risk management since good risk management involves addressing situations of uncertainty in which the likelihood and consequences of a particular risk are not certain; where groups of people could be negatively affected by the risk; and where the potential benefits and costs of risk should be fairly distributed. Earle et al. (2007) explored the relations between trust, risk perception and cooperation and identified two factors that affect these relations, namely knowledge and shared values. The impact of trust on risk perception may be greatest when knowledge is lacking, depending on whether respondents favoured or opposed the actions of the targets of their trust judgements. Bélanger et al. (2001) explain that trust should be nurtured. Once trust is established, organisations can draw on it when working with their stakeholders. Siegrist et al. (2007) state that high anxiety is associated with distrust and low anxiety with trust. According to Siegrist et al. (2007), trust is an important factor in risk management as it affects judgements of risk and benefit, acceptance and cooperation and – if understood – it is an important means of affecting risk perception and management.

Why is the issue of trust in risk management important? Organisations that follow expansion to emerging markets as a growth strategy place particular emphasis on the management of risks (Schomer, 2006) and tend to adhere to known, proven practices that have worked for them in their own context (Arnoldi, 2009). However, too many cross-border deals fail to live up to expectations (Pearl, 2010; Van Tonder and Roodt, 2008). Social scientists generally agree that a sufficient level of trust, especially systemic or institutional trust, plays a crucial part in the stability and maintenance of the organisational system. Research has shown that employees' trust is a critical variable influencing the performance, effectiveness, and efficiency of the organisation, whereas a lack of it would create a negative atmosphere in the organisation (Korsgaard et al., 2002; Kramer and Tyler, 1996; Ren, 2008; Robson et al., 2008; Tzafrir et al., 2004). When trust breaks down, the system is threatened with unrest and its legitimacy is called into question (Roth, 2009). Warah (2001) explains that formal control mechanisms per se should not be blamed for mediocre success. The focus has traditionally been on the need to reconfigure formal control mechanisms and accountability models, while attention should also be given to informal regulatory processes such as trust in risk management. This is supported by Sengün and Wasti (2009) who state that the effectiveness of excessive controls is being questioned and who argue for the use of trust as a governance mechanism. It is not enough to rely solely on formal controls to manage a cross-border alliance. Particularly within an emerging market environment, social control, which is only feasible in a trusting relationship, becomes an important consideration. Meyer et al. (2010) explain that a more integrated approach to risk management with regard to hard and soft issues is needed to ensure that businesses remain resilient and develop the capacity to handle risks. Warah (2001) proposes that trust, as a psychological contract, is of critical importance to organisational innovation and efficiency. To be successful, risk management models need to include explicit trust-building strategies.

METHODOLOGY

The research reported on in this article was based on a qualitative, interpretative approach to the study of organisational behaviour. Owing to the unique contribution of qualitative research to the study of organisational issues, this research method or approach is becoming increasingly popular in organisational studies (Brewerton and Millward, 2001; Cassell and Symon, 2004; Von Rosenstiel, 2004). The reason is that it is regarded as a scientific approach to gathering information and accounting for unconscious dynamics by means of reflection (Vanheule, 2002). The primary purpose of the interpretative approach is to describe and understand, rather than to explain and predict human behaviour (Babbie and Mouton, 2001). The investigation was commissioned by a South African financial firm in order to identify the social, cultural and behavioural factors influencing the implementation of a risk management framework in its East African subsidiary. A qualitative research approach was deemed the most suitable as it is recognised as offering a valuable contribution to the study of organisational issues (Brewerton and Millward, 2001; Cassell and Symon, 2004; Von Rosenstiel, 2004).

The unit of analysis in this case was the East African organisation, and the individual members were used as sources of evidence (Babbie and Mouton, 2001; Flick, 2004). Purposive sampling was done in collaboration with a senior official of the bank working in the foreign country. The in depth interviews involved 39 participants with responsibilities related to risk management. The data were collected by five researchers, two with doctoral degrees, two with master's degrees, and one reading for a master's degree. At least two members were involved in each interview along with a local bank official responsible for introducing the team and assisting with the correct understanding of the questions and responses when needed. The purpose of the research was explained to the interviewees, confidentiality and anonymity were ensured, and permission was obtained to record the interviews.

Through in-depth interviewing, a rich, detailed and intensive investigation of a phenomenon in a particular context took place (Cresswell, 1998; Ritchie and Lewis, 2003; Yin, 1994). This provided an opportunity to study the social, cultural and behavioural factors influencing the implementation of a risk management framework. The qualitative content analysis procedure was used to assist in data analysis in order to identify the highlighted themes and issues (Babbie and Mouton, 2001; Spencer et al., 2003). The discussion that follows is descriptive, and attempts were made to use the same phrases, words and key terms as were used by the interviewees to substantiate the themes.

DISCUSSION OF FINDINGS

The research on which this article reports was premised on the assumption that social, cultural and behavioural factors influenced the implementation of a risk management framework in the target organisation. While firms often focus on fundamental issues such as infrastructure and ROI, a good number of challenges associated with international and cross-border businesses derive from psychosocial factors. Organisational members have an innate knowledge of what does or does not work within the dynamics of their organisation. It is considered essential that these underlying psychosocial aspects be studied especially when dealing with an organisation experiencing any change such as the implementation of a new framework or policy (Krantz, 2001). In the first part of this article, the value, importance and influence of relationships and trust in a cross-border business context have been described in theoretical terms. In the following section, the expressed need for fostering trust through relational interaction during the implementation process of a risk management framework is discussed and illustrated with reference to specific examples in the organisation selected for this study.

A strong culture can be a source of competitive advantage where staff respond to stimuli because of their alignment to organisational values (Flamholtz and Randle, 2011; Rogers and Meehan, 2007). One employee called for an alignment of culture and values and stated that he could see the value in it because "...we (foreign and local organisation) have to share. So my commitment here makes things to go in the right manner for the benefit of the company and my future benefit". In an environment where alignment exists, a strong culture helps organisations to operate with improved execution and effectiveness. In contrast, when there is little trust and commitment to the organisational culture and values, more control is exercised through policy, procedures and bureaucracy.

There are certain values that consistently define the African culture: interdependence, communalism, caring and sensitivity are recognized as primary aspects of the philosophy of life in the African tradition (Igboin, 2011; Venter, 2004) where "...people are very much into sharing. Meeting someone is like meeting my brother, my sister" and humanism and interpersonal relationships are greatly valued. The impetus to assist people in preparing their application to borrow money from the bank is motivated by communal relationships and the threat of being excluded from the community if you are not seen to be helping your community. Being excluded from the community is regarded as a strong form of punishment by the community. One of the interviewees commented on this as follows: "...a person who has been segregated in a community – he will feel as if he is kept aside. That relationship with others would not be, because people will say that: You see that guy, he is not a good guy, you know, he is not a good guy. And that in (East Africa) is something not good for a person." There is a clear indication that in East Africa the closeness of a relationship plays an important role as indicated by an interviewee who explained that he "would not just give you money... if even you are a major issue because I would not know you. ... But if it is someone I know where he or she is coming from... more than willing to give them, without interest" and "if I have money and, and I have realised that there is a problem and [it] is my relative, automatically I would give him money".

It has been discussed in the literature that trust is a critical variable influencing the performance, effectiveness, and efficiency of the organisation. The need to be trusted was expressed when an interviewee remarked that "some of the decision-making should be inside; they should empower locals and trust them to make decisions." Another interviewee responded that to be trusted meant that one was part of the system but that management often did not trust the staff and "so they do not tell what is going on. Now the staff they do not feel like they are part of the bank … because if I belong to this family ... I need to be involved*"*. Staffs feels unable to add value, to assist and participate and it is due to a perception that "... the trust between the management, the top management, and the staff is still an issue. They still have the trust issues. The rules of engagement are not clear, there's no transparency and that causes a lot of problems. You may be privileged to get to know them; there is a problem with the bank, but if I am staff I do not know about it – how will I be able to relate to it?". The lack of trust cascades through the system. If there is no trust in the organisation, there is no trust between the organisation and its clients. The perception exists that it results in a loss of business since the "... customer does not feel like the banks trust them, and the banks, we do not trust the customers, so the requirement is the bureaucracy of the process of providing services is going too high – which discourages most of the customers".

Regarding personal loan transactions, generally there is no signing of a loan contract between individuals: The deal is concluded verbally without witnesses. An interviewee emphasized how important it is that, although risk is minimised through relevant documentation, the trust relationship they have with potential clients is important. This trust relationship is based on knowing the client and his/her business. In this way, a client base is expanded based on personal knowledge or investigation of potential clients and "... before they would give a loan to any customer that relationship has to be built between a bank and a customer. That is why, in most cases, banks would not give a loan". It is very important to note that the trust in the business relationship is not a "blind" trust. The interviewee explained that it is about a relationship of trust based on getting to know the client by using relevant risk-assessment documentation to investigate the business of the client. A major criterion for assessing risk is the level of trust that exists between the person borrowing the money and the person lending the money. If the relationship of trust is broken, perhaps as a result of past experiences of not having been paid back, they will, understandably, find it more difficult to lend money again to the same person, although due to the relational influence there is still the felt pressure to give money again. This was found in quite a significant number of interviews. Several participants indicated that trust plays a pivotal role in lending money both in personal relationships and in a business context and stated that "... we trust each other and, as I have said, in most cases we borrow money based on trust. So the factor there, the social cultural factor is, is influencing that borrowing… I think it is trust."

It appears as if relationships built on trust had not been established on the basis of honouring the importance of relations from an East African cultural perspective. As a result, the changes brought about by the implementation of the risk management framework were experienced negatively with regard to the framework as well as the change process followed during implementation. Organisations often experience anxiety during periods of organisational change, when both the organisation and the individuals involved experience stress (Baruch and Lambert, 2007; Cooper et al., 2002; Ohman, 2000). When organisations experience excessive anxiety, there are normally two ways of responding to change in order to contain the anxiety: Either by putting more controls, procedures and structure in place; or by investing in relationships.

Some interviewees questioned the perceived excessive control of the risk management framework to the detriment of being able to effect speedy decisions and thus impacting on relationships and business. One of the interviewees stated "...there's a lot of effort being spent on risk and control – if it is for the good and the bad we can discuss. There is a lot of policies being implemented, but we were in a position that you can move much quicker on decisions and [now] you are stuck. So you cannot move that quickly there's a whole group and signoffs that needed to be done." Although it is important to understand that financial institutions have a primary task of engaging in banking activities such as providing transactional accounts and lending money, a need exists for a more holistic and balanced way of managing risk. It is suggested that a culture of trust and reliability should be fostered first before risk management can follow. By enforcing risk management frameworks without taking note of unconscious dynamics, banks are restraining individuals' ability to take personal responsibility as well as their need for relational interaction and trust (Hirschhorn, 1999; Knox, 2002).

Employees that were affected by the change process felt excluded from the implementation process of the framework. Another agreed stating that the element of being trusted was missing and that it is "...one thing to have the policy and to accommodate local environment and everything and publish the policy – it is a matter of the understanding, and maybe the important thing is the trust". Interviewees at all levels felt that they could make constructive contributions to policy and practices implemented at the East African subsidiary because they knew their clients and had an innate knowledge of the East African relational culture and customs, and that "...before bringing in new products or new policies, [foreign organisation] should listen to ... the root. They take the new product to us and we discuss that if this will work or not before you bring implementation". A lack of consultation with and involvement of employees leads to frustration, feelings of disempowerment, perceptions of non-relevance and limited understanding and buy in. Beckett (2002) suggests that not being able to build trust is a risky business but that the joint identification of risks and the joint development of arrangements to manage risk may be an acceptable way of moving forward with a complex collaboration in the absence of time to develop appropriate levels of trust.

Conclusions

Organisational collaboration and expansion to emerging markets has become an important growth strategy due to intensified international competition between organisations. The failure of cross-border deals to live up to expectations can perhaps be attributed to the tendency to underestimate the importance of psychosocial or "soft" issues, such as building relationships and fostering trust. During the research on which this article is reporting, the expressed need for fostering trust through relational interaction during the implementation process of a risk management framework was explored.

In the current turbulent business environment management is challenged to find a balance between exercising optimal levels of control and considering interorganizational trust. In organisations, trust has become a valuable resource for business. How to build and safeguard trust, how to cope with distrust, and how trust affects organisational performance, are issues of critical importance. Disregarding trust is counterproductive to risk management, and this article argued that a need exists for the building of relationships and the fostering of trust between organisations expanding across borders into Africa.

The context of the implementation of a risk management framework formed the backdrop to the discussion of trust in cross-border business. Uncertain economic conditions and hesitant recovery from the world-wide economic recession have caused a renewed focus on risk management, which lies at the core of a financial institution's operations and attempts to ensure operational efficiency, enforce regulation compliance, support sustainability and ensure reliable and responsible reporting. Traditional risk management frameworks assume a linear pattern of cause and effect with regard to risk and do not sufficiently consider the social, cultural and behavioural factors influencing risk management. If risk management is perceived only as a regulatory mandate, much of the value that could be gained from a psychosocial perspective on business relationships could be lost.

It was found that trust is critical for risk management as it affects judgements of risk and benefit, acceptance and cooperation. If understood, it is an important means of affecting risk perception and management. The impact of trust on risk perception may be greater when knowledge is lacking, depending on whether respondents favoured or opposed the actions of the targets of their trust judgments. Trust is identified as a key aspect of successful international alliances and builds competitive advantage. In order for businesses expanding across borders to be successful, it is recommended that risk management models include explicit trust-building strategies.

Trust should be nurtured and, once it has been established, organisations can draw on it when working with their stakeholders. Interrelationships and interdependency form an integral part of the human experience in the East-African tradition. It was found that social, cultural and behavioural factors influenced the implementation of a risk management framework in the target organisation. A strong culture can be a source of competitive advantage. However, if there is little trust and commitment to the organisational culture and values, more control must be exercised through extensive procedures. Research has shown that employees' trust is a critical variable influencing the performance, effectiveness, and efficiency of the organisation, whereas a lack of trust creates a negative atmosphere in the organisation leading to a loss of business.

It appears that relationships built on trust had not been established at the East African subsidiary; consequently, the changes brought about by the implementation of the risk management framework were experienced negatively with regard to the framework as well as the change process followed during implementation. Employees that were affected by the change process felt excluded and untrusted, but they believed that they could make constructive contributions to policy and practices implemented at the East African subsidiary because they knew their clients and had an innate knowledge of the East Africa relational culture and customs. The failure to consult and involve employees only leads to frustration, feelings of disempowerment, perceptions of irrelevance, and limited understanding and buy-in. It is recommended that joint identification of risks and the joint development of arrangements to manage risk may be the way forward with a complex collaboration in the absence of time to develop appropriate levels of trust before implementation.

In conclusion, in the current fast-changing global business environment, trust among role-players in organisations has become essential for survival. Organisations expanding across borders are encouraged to be aware of the need for and influence of trust when managing risk. A limitation of this study is that it only explored the need for trust from the perspective of the East African subsidiary, and that the views of the people involved in risk management in the South Africa holding company could not be explored. It is recommended that this matter be explored further because trust is critical to risk management. Good business is built on relationships which form the foundation of trust. Thus, ignoring the fostering of trust through relationship-building before expanding across borders is not conducive to good business.

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