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TRUST IN COMPARATIVE PERSPECTIVE. AN ECONOMIC SOCIOLOGY APPROACH TO THE ISSUE OF CORPORATE GOVERNANCE

INTRODUCTION

The concept of 'trust' (as well as that of term 'risk') appear to have settled in the social sciences, resulting in a lively discussion at both theoretical and empirical levels. One can safely say that the issue of trust has become a fashionable object of analysis in the humanities, which eventually led to a lively discussion on its consequences on the relations between individuals, between individuals and the institutions or between institutions.

The main purpose of this paper is to apply the concept of trust in the analysis of two models of corporate governance. To capture as many aspects as possible (primarily) differentiating these two socio-economic models, I decided to refer to the approach of economic sociology,[1] which, in addition to purely economic determinants takes into account the effect of social or cultural factors.[2]

AN ISSUE OF TRUST

Let's start by trying a conceptual approach to the subject of trust. For purposes of this text I assume a very broad definition of trust, proposed by Piotr Sztompka: "Trust is a bet about the future contingent actions of others".[3] One can complicate the above interpretation of trust by highlighting the following variants: "personal, categorial, positional, group, institutional, commercial,

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[1] See, e.g.: Granovetter M., Swedberg R. (1992); Bourdieu P. (2005); Turner J. H. (2004).

[2] Francis Fukuyama, in his article entitled "The Primacy of Culture" said that culture is "the sphere of sociology and antropology" (See: Fukuyama 1995, p. 7).

[3] Piotr Sztompka, *Trust. A Sociological Theory*, Cambridge University Press, Cambridge 2003, p. 25.

systemic",[4] and each one of them could individually serve as a reference point for a more detailed examination of different forms of socio-economic activity. However, it's the broad view of trust that reflects the common sense intuitions about this, and in addition may correspond with different areas of scientific analysis, which is an undoubted advantage of such a general statement.

There are also other, equally general, approaches to the subject of trust, which can be cited along with the above definition by Piotr Sztompka and would not be in conflict with each other, at most highlighting somewhat different emphases, such as the inclusion of Toshio Yamagishi and Midori Yamagishi, where trust is defined as "an expectation of goodwill and benign intent".[5] Or Diego Gambetta, who has pointed out that:

> (...) trust (or, symmetrically, distrust) is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both *before* he can monitor such action (or independently of his capacity ever to be able to monitor it) and in a context in which it affects *his own* action.[6]

In this text the title comparative perspective on the subject of trust is suggested by two models of corporate governance. By speaking of corporate governance, I mean "system by which companies are directed and controlled",[7] or at the very general level it is seen "as a problem involving agent – the CEO of the corporation – and multiple principals – the shareholders, creditors, suppliers, clients, employees, and other parties with whom the CEO engages in business on behalf of the corporation".[8] These two types of analysis of corporate governance, in fact, represent two variants of capitalism - shareholder and stakeholder (or the Anglo-Saxon corporate governance model and Continental corporate governance). Determining specific relationships between corporate governance and socio-economic regime will not be analyzed in this study, hence we will stop at finding a general correspondence between these terms (in other words, they are used as synonyms in this text). Having memorized the above solution defining a type of corporate governance as a variation of capitalism, we can proceed to a brief outline of these two versions of capitalism, which have already been mentioned above.

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[4] Ibidem, pp. 45-46.

[5] Toshio Yamagishi, Midori Yamagishi, "Trust and Commitment in the United States and Japan", *Motivation and Emotion*, 1994, Vol. 18, No. 2, p. 132.

[6] Diego Gambetta, Can We Trust Trust? In: idem (ed.), *Trust. Making and Breaking Cooperative Relations*, Basil Blackwell, Oxford 1990, p. 217.

[7] Sir Adrian Canbury, *The Committee on the Financial Aspects of Corporate Governance*, London 1992 cited by: Yuzuo Yao, Historical Dynamics of the Development of the Corporate Governance in Japan, *Journal of Politics and Law*, 2009, Vol. 2, No. 4, p. 168.

[8] Marco Becht, Patric Bolton, Alisa Röell, "Corporate Governance and Control", *NBER Working Paper Series*, 2002, Working Paper 9371, p. 14.

TWO MODELS OF CORPORATE GOVERNANCE

The shareholder model, in which the most significant task is to maximize shareholder returns is also named Liberal Capitalism of the American way (or in short: Liberal Market Economy). This approach is attributed to such countries as the United States and Britain; and that is why many academics and journalists write about the Anglo-Saxon or Anglo-American capitalism. From among other perspectives of this model, we can point out Australia, New Zealand, Ireland and the like. But one should be aware of the fact that the U.S. and Britain are the purest forms of this type of corporate governance.[9]

At the other extreme, there is stakeholder-oriented approach typical of Japan, Germany, South Korea and France. Very often it is called: "Rhinish Model" typical of continental Europe, as well as of Japan and South Korea.[10]

The main question (and the objective at the same time) is – whether it is possible to describe the differences between the two systems[11] through the categories of trust? In this line of thought, Economic sociology, I believe, provides opportunities for a broad approach to the two models of corporate governance issues in the context of trust, but one way or another we have to consider it in a practical way.[12]

SOCIO-ECONOMIC SIGNIFICANCE OF TRUST

Although the issue of trust can be viewed at different levels of analysis such as the study of attitudes and opinions of citizens on their feelings (of the many spheres of social and personal functioning), through studying the relationship of the individual to social institutions, to that of the macroeconomic and macrosociological consequences of these attitudes. In this study, I will discuss the general characteristics of corporate governance (which, in an indirect way – are a priori assumptions and will reflect all these levels). Therefore, Tony Morden argues (following Francis Fukuyama's argumentation[13]) that

> a high degree of trust increases economic efficiency by reducing these transaction costs that would otherwise be incurred, for instance in:

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[9] Mariusz Baranowski, "Internal Diversities of Stakeholder Capitalism and Its Relation to Anglo-Saxon Form of Capitalism". In: Jacek Tittenbrun (ed.), *Capitalism or Capitalisms?* Wydawnictwo My Book, Szczecin 2009, p. 33.

[10] Ibidem.

[11] The main difference between these two models is that there are "at one extreme U.K. and U.S. rules designed mainly to promote shareholder value, and at the other German rules designed to balance the interests of shareholders and employees", as Marco Becht *et al.*, op. cit., 17 put it.

[12] This kind of study could rely on e.g. Hofstede's "Culture's Consequences" (2001).

[13] See: Francis Fukuyama, *Trust. The Social Values and the Creation of Prosperity*, Hamish Hamilton, London 1995b.

- maintaining and sustaining an effective enterprise relationship architecture,
- holding together large scale and impersonal organizations or networks whose relationships must have a wider basis than that restricted to family or kin,
- dealing with inter-party disputes,
- finding trustworthy and reliable suppliers, buyers, or creditors,
- negotiating and implementing contractual arrangements,
- complying with government, trade, or environmental regulations,
- identifying, and dealing with malpractice, fraud, or corruption.[14]

All factors mentioned are crutial in an economic sociology approach, but many scholars do not realize how important is the role the issue of trust plays in the context of economic, social, and cultural circumstances.

It turns out that economists have particularly neglected not only the issue of trust, but in general the impact of non-economic factors on economic phenomena. Perhaps that is why in recent years one can see an intensive development of these branches of economics and other disciplines (e.g. sociology, cultural sciences, etc.) which in particular deal with the analysis of the factors previously overlooked.

It turns out that consequences of considering such elements as honesty and trust are of great importance for the socio-economic activities. In order not to be groundless, I am going to cite the author of "Principles of Strategic Management" listing the following benefits as being the consequence of business practices based on trust[15]:

- there will be a need for fewer control mechanisms within the management process,
- there will be less need to specify matters contractually (which imposes a cost of bureaucracy),
- there will be fewer grounds for dispute; and hence fewer disputes,
- there will be less need for litigation (which consumes wealth but adds little or no value; destroys relationships; and reduces trust),
- there will be less need to hedge against unpredictable issues and unexpected events.

As the listed paragraphs show, the consequences of the use of socially understood trust at the level of economic organization are large and contribute to the creation of a specific situation, as well as improve the efficiency of entities operating in an environment that Fukuyama describes as "high-trust" societies (especially Japan and Germany).

The problem arises when it turns out that even though the Anglo-Saxon and Asian-continental corporate governance models are different – indeed being at extreme ends of the continuum, according to the level of trust – there are no visible differences between them.

[14] Tony Morden, *Principles of Strategic Management*, Ashgate, Hampshire 2007, p. 374.
[15] Ibidem.

JAPAN *VS.* U.S.

In Fukuyama's view, one can distinguish between "high-trust" societies (such as Japan and Germany, as mentioned above), in which "people readily form relationships with strangers and are able to work and associate with them in a comfortable and flexible way"[16] from "low-trust" ones (Italy, France, Korea, or China). The example of the United States is more complicated, because this particular country "has historically been a high-trust society but is at present a mixed case".[17] As a matter of fact, Robert Putnam emphasizes the same phenomenon when he says that: "American social capital in the form of civic associations has significantly eroded over the last generation".[18]

There are also other approaches to the subject, in which attention is drawn to the fact that "the general level of trust is higher among Americans than among Japanese, a proposition opposite to the conventional characterization of interpersonal and inter-organizational relations in Japanese and American societies".[19]

In the context of socio-economic analysis of the comparison of corporate governance mechanisms the following table may be found helpful, summarizing not only the difference between American and Japanese model of corporate practices, but also the distinctions between the Japanese and German solutions.

Table 1. Governance systems: Source: Halpern (2000: 8)

Element	Market-based	Bank-based	
	United States	Universal banking (Germany)	Main bank (Japan)
Internal control/board of directors	Primarily outside members with strong CEO influence	Two-tier board: management and supervisory	Primarily insiders
Equity ownership	Widely held	Concentrated in family, corporate, bank. Separation of cash flow and control rights	More diffuse, intercorporate and bank ownership
Share voting	Some concentration through investment funds and strong proxy system	Banks vote as custodians as well as owners on their own	Voting by ownership of shares
Equity market	Liquid and efficient	Illiquid	Minor influence
Corporate control	Vigorous	Little activity	Little activity

[16] Trudy Govier, *Social Trust and Human Communities*, McGill-Queen's University Press, Montreal 1997, p. 132.

[17] Ibidem.

[18] Robert D. Putnam, "Bowling Alone: America's Declining Social Capital", *Journal of Democracy*, 1995, 6.1, p. 73.

[19] Toshio Yamagishi, Midori Yamagishi, op. cit., p. 130.

As Paul Halpern put it: ″there is one unique aspect of Japanese corporate governance: Japanese bureaucrats who, as stakeholders of the firm, influence managerial behaviour. This influence is observed when a bureaucrat leaves government service and enters private management. An ′′old boy network′′ of founders, owners and former presidents or former bureaucrats will influence the president of the firm. These are ′′old buddies′′ who know each other well and meet regularly within and across industries. This group can influence corporate behaviour, but it is not clear whether its objectives are consistent with shareholder interests, a broader social concern, or a narrow individual one″.[20]

The above assertion illustrates the specific inclusion of trust in the Japanese management practice and corporate governance. In fact, there is a technical term for these kinds of practices – *amakudari*, which means "descent from heaven" and is used to describe the reemployment of government bureaucrats after the termination of their service with the government".[21] Generally speaking, the practice of *amakudari* is a variant of trust, but is not called in such way because it can raise legitimate ethical objections (mainly in countries in which suspicion arises when the state (politics) and business share interests).

In American conditions this practice is imaginable, but not on such a large scale as in the case of Japan, which presents a different approach to acquiring staff for government positions. In case of the U.S, however, such widely perceived trust concerns separating the state sector from the private sector, because their unification by specific individuals would be difficult to accept for the public.

The above table shows also a general (i.e. analytical) nature of the classification, in which Japanese and German solutions are treated as synonymous. In addition to undoubted similarities in the socio-economic aspect of corporate governance, as well as in similar practices of social behavior, there are a number of differences between these models. As noted by Yuzuo Yao, "the Japanese model was quite distinct from the German model and the U.S. model and led to Japan becoming the second largest economy in the world by the 1980s".[22]

An attempt to a more detailed overview and comparison of the different solutions, for example based on the CEO′′s compensation and stakeholder society, can lead to even more startling findings. Let′′s look at the table below.

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[20] Paul J. N. Halpern, "Systematic Perspectives on Corporate Governance Systems". In: Stephen S. Cohen, Gavin Boyd (ed.), *Corporate Governance and Globalization*, Long Range Planning Issues, Edward Elgar, Cheltenham-Northampton 2000, p. 15.

[21] Tuvia Blumenthal, "The Practice of Amakudari within the Japanese Employment System", *Asian Survey*, 1985, Vol. 25, No. 3, p. 310.

[22] Yuzuo Yao, op. cit., p. 167.

Table 2. Flat CEO's compensation and stakeholder society: variable renumeration as percentage of total remuneration in some countries Source: Chilosi, Damiani (2007: 30), but derived from Towers Perrin (2001-2002, 1997, 2005) „Worldwide Remuneration Data"

Countries	1996	2001	2003	2005
France	29,00%	26,00%	29,00%	41,00%
Germany	12,00%	36,00%	51,00%	52,00%
Italy	24,00%	33,00%	30,00%	35,00%
Japan	8,00%	18,00%	19,00%	22,00%
UK	30,00%	30,00%	34,00%	35,00%
US	47,00%	61,00%	63,00%	62,00%

The table shows that "in the U.S., in the more shareholder-oriented system, the CEO's compensation is less flat than in the other countries",[23] but what's really surprising is the data regarding Germany (here the change is most noticeable over the nine years analyzed). This may suggest that the German model (as an example) changes, following the neo-American path. An additional surprise is the result of data from 2005, which – if one takes into account only this phenomenon – shows that the closest to Japanese practices are the British and Italian solutions.

However, one of the biggest differences between Japanese and American solutions – indirectly concerning the issue of trust – is the difference clearly explained by Yuzuo Yao:

> In the U.S., the critical problem of the modern corporate governance is the principle-agent problem arising from the separation of ownership and control in that sometimes the managers may ignore the profits of the numerous and dispersed shareholders and breach their fiduciary duties. As a result, the owners of the company may lose money that they have invested at the hands of dishonest or reckless managers. In order to control this agency problem, the strong stock market and the takeover mechanism are used as instruments for aligning the benefits of shareholders with managerial interests.[24]

Seen from another angle, one may say that "Japan has developed an alternative governance mechanism. Since the ownership is concentrated in the hands of a *keiretsu* partner or main bank, who plays a more important role in monitoring the management, most companies in Japan are shield form takeovers and both ownership and the control of the management are fused in practice".[25]

[23] Alberto Chilosi, Mirella Damiani, "Stakeholders vs. Shareholders in Corporate Governance", *MPRA Paper*, 2007, No. 2334, p. 29.

[24] Yuzuo Yao, op. cit., p. 168.

[25] Ibidem.

Based on the above characteristics, one can come to a conclusion that the specificity of American and Japanese solutions in the context of corporate governance mechanisms reflects the approach of these two countries to the issue of public trust. Naturally the matter is the indirect interpretation of these two types of supervision, which leads to say that that the low level of public trust in American solutions is reflected at the level of corporate governance (e.g., principle-agent problem, free rider problem, poison pills, golden parachutes, etc.). Putnam's examination of the American society seems to complement the picture of a rather "low-trust" society. On the other hand, we have the Japanese solutions based on trust between companies, which lets these networks of combined companies stand up to free-market (here: Anglo-Saxon) practices such as acquisitions (M&A market).

One can reverse these insights 180 degrees, by trying to show completely different dependencies. The mechanism of cross-shareholding and the relative 'separation' of the Japanese economy from influence of foreign corporations can be considered as a lack of trust at the level of economic exchange. High concentration of shares ownership of the main business groups, which in addition rests in the hands of large banks, would be another example of a closed and rather passive attitude of the Japanese corporations and their dependent businesses.

If however, we go down going down one level in the analysis of practices of Japanese and American solutions, we can say that the situation is clearer. Let's analyze the employment system as an example; in the United States there is – to use this very popular term – a flexible employment system, characterized by a lack of trust between employee and employer. This – uncertainty about the continuity of employment imposes certain behaviors, not only concerning continuous training, but also a fierce rivalry between workers, which takes a form of individualized strategies focused on their own, and not the company's interest. However, in Japan "the employment system is founded on two main elements: first, lifetime employment, in which workers spend their entire career at the same firm, slowly working their way up the ranks; second, seniority-based pay (age-based pay), which links wages to length of tenure rather than ability".[26]

Employment system constructed, in such a way, is an expression of the reciprocated confidence between employee and employer, since a person connected to the corporation by a lifetime employment contract is not exposed to the inconveniences with which workers have to deal in American capitalism. While speaking of this aspect of the Japanese model, it is worth noting that the lifetime employment does not need to connect to the low labor productivity, and reduced innovation.

[26] Ibidem, p. 168.

CONCLUSIONS

Multidimensionality and versatility of both the concept of trust as well as corporate governance inevitably cause many conceptual difficulties in the analysis of these aspects of social and economic life. Furthermore, a large number of studies of these issues that have been made in a very short period of time, is not an incentive to take up this subject, since it forces the researcher to take the literature on this topic into account. The socio-economic order itself and the large number of variables used to describe this area are a dynamic entity, which by its very nature cannot be dealt with entirely. To take just one example, "Toyota, one of the Japan's highest performing firms, has maintained the permanent employment system and strong ties with its suppliers, whereas Nissan has transformed itself along more Anglo-American lines".[27]

All these elements taken together make a strong argument in favor of the thesis, that one should try to capture a part (small piece) of this complex reality, but also – in conclusion - to notice those issues. Such a short study is not able to fully explain the subject of trust through a comparison of two models of corporate governance. Yet an attempt to diversify these models with focus on the concept of trust seems to make sense. With the increasing number of publications on the subject discussed in this paper, a theoretical chaos arises concerning basic concepts and differences between various systems of corporate governance. This leads to a situation in which "anything goes", as Paul Feyerabend would have said, which in conclusion does not conduce to the explanatory function to science.

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[27] Christina L. Ahmadjian, Gregory E. Robbins, "A Clash of Capitalisms: Foreign Shareholders and Corporate Restructing in 1990s Japan", *American Sociological Review*, 2005, Vol. 70, No. 3, p. 468.

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