



A NOTE ON TRUST: AN ECONOMIC AND SOCIAL PERSPECTIVE

Ik-Whan G. Kwon¹, Sung-Ho Kim²

¹*The Center for Supply Chain Excellence, Saint Louis University*

²*Department of Healthcare Management, Cheongju University*

Abstract

This paper explores the concept and implication of trust from both economic and emotional perspectives, emphasizing its critical roles in personal and business relationships. Trust facilitates information sharing, and fostering long-term commitment. As the level of trust increases, transaction costs decrease, leading to economic rewards and stronger, sustainable relationships between participating partners. Breakdown of trust results in emotional pain as well as economic loss. This short essay also discusses the impact of emerging technologies, particularly artificial intelligence (AI), on interpersonal trust. From a neuroscientific viewpoint, it explains how trust enhances personal joy and satisfaction. Through theoretical and empirical evidence, we are hoping that this study illustrates the pivotal role of trust in shaping our lives.

Keywords

Relationship-based commitment, Transaction Cost, AI and Trust, Information search cost, Emotional and Economic Reward

Introduction

Trust, relationship, collaboration, information sharing and commitment are some of the words that have been quoted extensively on a daily base in our life to highlight economics and emotional benefit implied in these words (Staley, 2016; Paluri and Mishal, 2020). From personal and emotional perspective, the word “trust” provides comfort zone where anxiety from unknown and untested relationship with others is gradually dissipated. Once such anxiety is removed, it opens a path toward formal or informal journey to establishing relationship building process. Information sharing, whether it is personal or business, plays an important role in establishing relationship. Information sharing is perceived as a prelude of trusting relationship that may lead to commitment (Kwon and Suh, 2004). People who are in the midst of making a serious long-term relationship with others (whether such journey is business or personal, e.g. romantic relationship) have one thing in common; a desire to elevate their relationship to the next level, commitment.

Commitment is a final destination from relationship building journey (Kwon and Suh, 2005). Commitment creates either implicit (moral and ethical) or explicit (contract) obligations that provides joyful and tangible benefits for the lives of those who are part of this journey. The process may take a long journey and face numerous obstacles and challenges along the way. Such a journey sometime is lonely that causes anxieties and perhaps brings second thought on embarking this journey, but invisible and anticipatory reward from the journey could be tangible (e.g. monetary reward, long-term commitment) as well as intangible (reducing anxiety, making a lifetime commitment to “union”). Relationship-based commitment is stronger than task-based commitment in that the later expires/ends as the tasks in question

are completed. In addition, relationship-based commitment endures and, in many instances, overcome unseen challenges and obstacles along the way because trust is rooted in tolerance and gives benefit of doubts of the other parties who may be perceived as an opportunist. Accordingly, we feel “good” and “content” in engaging in relationship-based commitment as opposed to task-based commitment.

Opportunistic behavior by potential partners may create a short-term anxiety and may destroy well-fought winning and rewarding process. But such behavior usually does not last long as the market policies itself and removes the “bad”-apples” from the market. Once trust is lost or betrayed, it is hard, if not impossible, to recover trust that once there but lost. Emotional toll from betrayal is much more painful than monetary/material loss. A long-term benefit (economics and/or emotional) from relationship may have disappeared for a foreseeable future. We have witnessed many good brands vanished from the market once consumers felt betrayed. In a personal level, it would take many years and effort to recover (if it ever recovers) trust from such betrayal with a great emotional toll. We have seen many unions were destroyed when trust was lost between two partners. For example, approximately 41% of first marriages and 60% of second marriages end in divorce in 2023, highlighting personal journeys from “courtship” to final destination, “marriage” is not as easy and smooth as we would have wanted (McAllister, 2024).

Emerging technology such as artificial intelligence (AI) adds another dimension to our understanding of interpersonal trust building process. It is argued from a trust perspective that introduction of AI to our daily life may be linked to a corresponding decline of interpersonal trust building process (Weisz *et al.*, 2024). They argue that interpersonal relationship will be gradually replaced by inter-institutional relationship as there will be no “person” to interact with. Technologies will do almost everything that human is expected to carry out. Hypothesis they advanced assumes that trust is “created” just like any other products in the market. We submit, however, that trust is to be “earned” based on ecosystem we live in where emotion, anticipation, relationship and feeling of joy remnants from trust play crucial role in formation of everlasting trust (Kwon and Kim, 2025).

We further submit that trust is not a tangible/visible “thing”. Rather it is imbedded in our mind and soul transcend into behavioral display. Further research in this area (relationship between AI and the level of interorganizational and personal trust) may shed some light to this explosive yet untested area (Weisz *et al.*, 2024).

There is a paucity in literature how trust is created/formed, maintained, nurtured and transmitted to our daily life. We are under an erroneous assumption that “*trust is here to take*”. Such a shortsighted misperception on trust clouds our critical thinking process on trust formation process. This short essay intends to explore the process of creating/establishing trust among us that gives us a joy in our life whether it is in business or in personal relationship. Personal relationship based on trust nurtures our prospects of dealing with others in such a way to create a joy for living. If one feels a joy in dealing with others in personal and/or business level, outcomes will be more positive which could overcome unforeseen obstacles in such a way to make relationship sustainable. In short, we exist through relationship. Trust is the catalyst for creating rewarding relationship that paves the way for long-term commitments. Trust is one word that carries a heavy responsibility, but renders a joy without fear.

The purpose of this short essay is to develop the process of creating trust using economic theory (business) and neuroscience (personal life) as a theoretical framework. Empirical evidences are provided to support our arguments.

Trust and Rewards: Theoretical Framework

Although trust brings a joy in our life, it has an intangible (emotional) cost. As discussed in previous section, the journey of building trust with someone is not free from risk and emotional drain. In many instances, emotional cost becomes unmanageably painful once trust is broken. There is always someone with opportunistic behavior who would take advantage of the vulnerable situation (Almutairi, 2017). Every activity, whether it is business, personal, public or private, carries transaction cost, a cost that involves in executing the transaction (Williamson, 2008). The cost could be tangible (monetary, materials, etc.) or intangible (emotional stress).

To identify the sources of transaction cost, therefore, is the best way to manage such cost and strengthen the relationship with potential business or personal partners. Literature suggests that the transaction cost mainly consists of three components; information search cost, negotiation cost and monitoring/assessing/reviewing cost (Kwon and Kim, 2024).

i) Information search cost: It is not unexpected for anyone who desires to engage a serious relationship with others to look for additional information on their potential partners. In some cases, especially in business, information may be available in open sources. However, a search for additional information for deeper understanding of potential business/personal partners requires an extensive search for additional information than those available in the open sources. If the information search is involved at the personal level, the process takes rather challenging path since most sensitive personal information may be unavailable in open sources. The process for searching additional information becomes tedious and emotionally exhausted as well.

In the business cases, one would look for such information as potential partner's financial health, organizational culture and skills/competency (North, 1990). Of the organizational culture, the most pertinent information should be "people" who leads and manages the organization. There is no "cookie-cutter" framework by which one utilizes to build personal relationship. Each and every case is unique and different. One would find out more through conversations at a personal level rather than organized formal platform. Army of CPAs and/or lawyers may uncover obvious information. But they may be unable to acquire information beyond what is in the book. It will take a personal "touch" to build a dialogue that may create an environment conducive for developing personal relationship.

Three areas listed above (partner's financial health, organizational structure/culture and skills/competency) may give initial picture of potential business partner's capability of engaging business. Of particular interest at this stage is organizational culture. Employees in high culture of trust organizations are more productive, have more energy at work, collaborate better with their colleagues, and stay with their employers longer than people working at low-trust companies. They also suffer less chronic stress and are happier with their lives, and these factors fuel stronger performance (Zak, 2017). Interpersonal trust with others also plays an important role in shaping corporate work ethics and productivity. For example, it is reported that compared with people at low-trust companies, employees at high-trust organizations have a 74% less stress and 29% more satisfaction with their lives, 106% more energy at work and 50% higher productivity and 13% fewer sick days and 40% less burnout. Compared with people at low-trust companies, people at high-trust companies report: 70% less stress, 106% more energy at work, 50% higher productivity, 13% fewer sick days, 76% more engagement, 29% more satisfaction with their lives, 40% less burnout (Zak, 2017). Another similar research reveals that the collaboration index based on interpersonal trust accounted for 74% in the variation of performance index (Simatupang and Sridharan, 2004).

Type and extent of information sharing with external business partners become more productive if and when the *internal* information sharing across different units in the organization is formally instituted (Lee, Kwon and Servance, 2007). Utility and scope of information available to external partners may be limited and less effective if there is a lack of uniformity of information flow within an organization. Organizational culture and leadership style at the top may play an important and positive role creating unified information flow, which in turn promotes information sharing within the organization. It is said that corporate culture is where trust resides.

ii) Negotiation/Bargaining Cost: Once search process provides a promising result for further engagements with potential partners, two parties would commence negotiations for mutually agreeable and acceptable terms and conditions for further engagements. Bargaining process is emotional, complex, uncertain and costly. Information sharing and subsequent trust between and among negotiating parties may play important and useful roles to conclude this process.

Bargaining process could be a short, simple and nominal (e.g. agreeing verbally on cost of replacing tires) to complex (e.g. Nippon Steel Corporation acquiring U.S. Steel Company), or crippling cost to the national economy (e.g. East and Gulf Coast port strikes in 2024), or bargaining process between United Auto Work Union with three major auto manufacturing companies in Detroit in 2023. Regardless of the size of assets in business negotiation or emotional drain during two person's courtship, mutual trust has to be the most important single factor during the negotiation/courtship phase. No money is large enough to buy "trust". Trust has to be earned at a personal level. Negotiation with impersonal corporate faceless "positions" can be easily fractured, but negotiations between and among "persons" may have a better chance to overcome many obstacles, because negotiation at corporate level are "corporate vs. corporates" and not between "person to person". Corporate is not a "person with emotion", rather it is a "thing" which has no emotion and feeling.

iii) Monitoring/Enforcing Cost: These are the costs associated with enforcing contract/ agreement at corporate level. At the personal level, it is implicit understanding of emotional reward and related cost (e.g. reward for successful union between two caring persons, or emotional stress from a failure of union). Each party assumes and expects that the parties in the contract/agreement/ MOU/understanding faithfully honor and execute each and every area that agreed upon during the bargaining/courtship period. In spite of good faith that each party committed at the negotiation phase, there will be always areas of disagreement (in business case) and misunderstanding (in personal courtship) during the implementation stage. The level of trust that each party displayed during the bargaining process will shape the degrees of the monitoring cost (business) and emotional drain (personal engagement). Lawyer's fee as well as CPA's cost could be minimized if there is not much to monitor. If two parties negotiated with good faith (trust), they feel no need to monitor the process. The monitoring cost, accordingly, can/should be minimized (Kwon and Kim, 2023). According to the 2022 State of Corporate Law Departments Report from the Thomson Reuters Institute, the total legal fees in 2021 is, on average, 0.12% of revenue for global organizations with revenues of more than \$1 billion. This cost does not include cost associated with emotional stress.

The transaction cost theory discussed above will guide the outcome of trust-based economic returns.

Trust and Economic Reward

Literature appears to suggest that interpersonal trust plays a major role in reducing the transaction cost (e.g., Hong *et al.*, 2013). Built on the existing transaction cost theory, [Figure 1] below illustrates inter-relationship between three main constructs; transaction cost, economic reward and the level of trust.

The relationship between economic gain and the level of trust provides an interesting outcome. As the level of trust increases (X-axis) accompanied by decrease in the transaction cost (Y-axis) as discussed above, the uncertainty area (Zone A) becomes smaller. As confidence in engaging with new business partners' increases (economic gain curve), the economic surplus zone (Zone B) improves. The dynamic

relationship between transaction cost, the level of trust and subsequent economic surplus rests in our hypothesis that transaction cost can be and should be managed through relationship among partners based on mutual trust. Trust creates tangible as well as intangible benefit throughout the relationship period and beyond as shown in Figure 1.

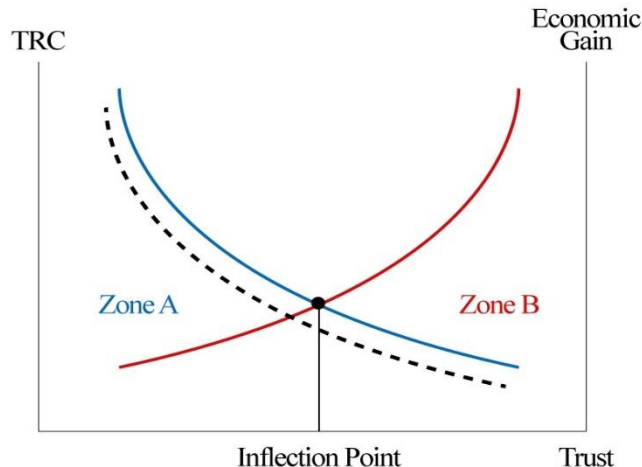


Figure 1: Relationship between Transaction Cost (TRC), the Level of Trust and Economic Reward

(Source: Reproduced with permission from Kwon, Ik-Whan and Kim, Sung-Ho (2024). Relationship between economics of trust and transaction cost: A brief exposition. International Journal of Business & Management Studies ISSN 2694-1430 (Print), 2694-1449 (Online) Volume 05; Issue no 02. DOI: 10.56734/ijbms.v5n2a5)

The inflection points where transaction cost curve intersects the economic gain curve provides a rare opportunity for us to augment economic surplus. As discussed in the previous section, transaction cost is comprised with three areas; search cost, negotiation cost and monitoring cost. It is important to understand the characteristics of these cost curves in that they are not mutually exclusive, rather they are interconnected. For example, it is a reasonable assumption that had search process done comprehensively and thoroughly, there is a high probability that the bargaining process and subsequent time spent on negotiation process will be shortened and reduced. It follows; therefore, the monitoring cost will be reduced as well. As a result, the entire transaction cost curve should be shifted downward (dotted line) creating smaller

uncertainty zone (Zone A) and simultaneously expanding economic surplus zone (Zone B). Every participant in this process gains additional economic surplus.

Trust and Joy from Personal Relationship Prospective

A similar scenario can be framed for personal relationship with someone with whom lifetime commitment

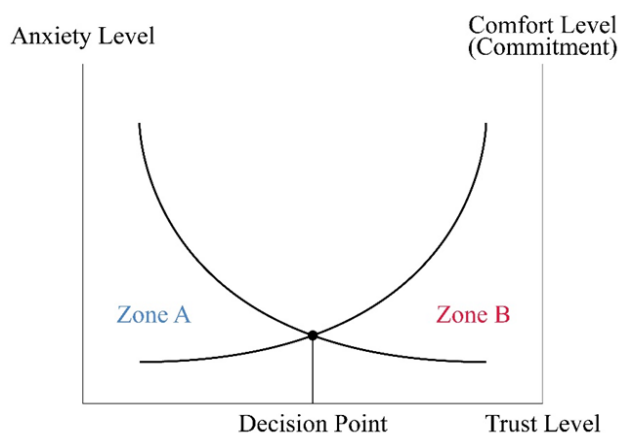


Figure 2: Relationship between Anxiety, Trust and Comfort Level

is seriously contemplated [Figure 2]. When one party enters into a serious conversation with other for a lifetime commitment, the Anxiety Zone (A) is initially high and the Comfort Level, accordingly, will be low (Zone B). As the courtship (“negotiation”) continues, each party starts to know other party better and gradually understands the behavior of other party to the point to believe/trust what other party “says” and “does”. As negotiation (courtship) is progressing to a positive direction, each party seriously considers a lifetime commitment to each other.

Even a successful “courtship” sometime faces unexpected roadblock where one party starts to “rethinking/doubting” of their relationship for various reasons. The

inflection points where the anxiety curve intersects the comfort curve creates a period of “pause”. Each party retreats to his/her own comfort zone and starts to re-evaluate the situation. The outcome from this “retreat” point determines whether they move forward along the comfort zone (lifetime commitment) or back to the Anxiety Zone looking for a new lifetime commitment with someone else.

The journey from the beginning phase (search process) to the end (final commitment) is a period of testing our character; who we are and what we are made of. We want to trust someone who shares life together. The journey is a collection of tapestry of joy, excitement, anxiety and disappointment. But such a joy and excitement based on trust is not just product of emotional display between two carrying persons. Such process appears to be inherited in our body. Neuroscience appears to provide a glimpse of the link between trust and personal joy of commitment. According to one research, having a sense of higher purpose (excitement based on anticipating commitment) stimulates chemical called oxytocin production. Trust and purpose seem to mutually reinforce each other, providing a mechanism for extended oxytocin release, which, in turn, produces joy and happiness. In addition, the oxytocin appears to reduce the fear of trusting even stranger, opening up a path to start mutually beneficial engagement (even with a stranger) (Zak, 2017).

The Zak’s study further investigated the link between joy and happiness on the job with trusted team. According to his study, the correlation between trust and joy is very high (0.77 out of 1.0) when one has a trusted team. He interpreted this high correlation as that joy can be considered a “sufficient statistic” that reveals how effectively your company’s culture engages with employees, since *culture is where trust resides*.

Empirical Evidences

Literature review provides theoretical support that information sharing → trust → commitment hypothesis yields economic reward (Kwon and Suh, 2004 and 2005). It should be pointed out, however, that such reward is possible through reducing transaction cost which in turn lowers the marginal cost of doing business. Comparative advantage so achieved over the competitors opens up further market penetration (Covey, 2006).

Empirical results appear to support such hypothesis. For example, the best collaborator based on relational trust in supply chain cut the inventory carrying cost almost by 50% (Partidas, 2015). Cotton (2009), for example, discusses a return on capital investment based on degree of collaboration. Those in top tier of trust group, according to his study, enjoys 4 to 8% return on capital vs. 2 to 2.8% for the average tier trust group. The difference of return on capital between these two groups (4 to 8% vs. 2 to 2.8%) will undoubtedly make easier for them to attract additional capital for business growth and expansion. In its

2016 global CEO survey, PwC reported that 55% of CEOs think that a lack of trust is a threat to their organization's growth.

On the other hand, lack of trust-based collaboration is the biggest obstacle to improving supply chain processes (American Productivity and Quality Center, 2022). A study by Henke, Stalkamp and Yenivurt (2014) details the extent of profit loss by Chrysler due to loss of trust from suppliers. They calculated the amount of profit loss on a unit basis. They claim that poor or low trust with supplier have cost Chrysler \$688 of profit on every light vehicle they have manufactured and sold in the U.S. since 2001. According to their estimate, this translates into \$24 billion in lost operating profit (EBIT and extraordinary expenses) over the last 12 years. (Henke, Stallkamp and Yeniyurt, 2014). A similar story has been reported by Bed Bath & Beyond as they filed a bankruptcy. They lost supplier's trust on their ability to pay their financial obligation. Suppliers decided to scale back the amount of their regular supplies forcing Bed Bath & Beyond to file bankruptcy (Unglesbee, 2023).

On an emotional side, trust plays an important role shaping employee's work ethics and productivity. For example, it is reported that compared with people at low-trust companies, employees at high-trust organizations have a 74% less stress and 29% more satisfaction with their lives, 106% more energy at work and 50% higher productivity and 13% fewer sick days and 40% less burnout. Compared with people at low-trust companies, people at high-trust companies report: 70% less stress, 106% more energy at work, 50% higher productivity, 13% fewer sick days, 76% more engagement, 29% more satisfaction with their lives, 40% less burnout (Zak, 2017).

There is a strong correlation between performance index and trust related collaboration index. On average, a company's level of trust and its satisfaction were the highest and the level of perceived conflict was lowest in the relationships when there is a high level of interdependence based on trust (Simatupang and Sridharan, 2004). Employees in high trust organizations are more productive, have more energy at work, collaborate better with their colleagues, and stay with their employers longer than people working at low-trust companies. They also suffer less chronic stress and are happier with their lives, and these factors fuel stronger performance (Kumar, 1996).

Trust building process requires emotional support from many people especially from friends who work together on a daily basis. Friends understand the emotional stress faced in a workplace. Yet, a study reveals that only 30% of those 15 million workers in the study had a "best" friend at work. Those employees who have best and trusting friends were the better performers, according to the survey. They earned more, were better with customers, and were less likely to leave their jobs for other positions. Among those 70% who did not have a best trusting friend at work, 11 out of 12 reported that they were not very engaged in their jobs. We can infer from the above survey findings that having friendships at work is highly important, not just for their wellbeing, but for the organization's bottom line (Waldinger, 2023). In spite of living in "wired" society, many people still consider themselves "lonely" which may lead to unproductive life style. For example, the BBC Loneliness Experiment, which sampled 55,000 people around the world in 2018, found that 40% of 16 to 24 year olds feel lonely often or very often. Other studies show that around 10% of adults around the world feel lonely – and in many different ways. Of those people who professed they were lonely, the joy of trust will be also eroded.

Summary and Conclusions

The word 'trust' has been extensively used to describe implicit power and benefit it creates in our daily life. However, we have assumed that "trust" creates such benefit in our life without critically examining how the concept of "trust" is formed and how it transcends into joy in our life. This short essay attempted to fill the gap. The framework we developed was supported by the existing empirical evidences. Economic theory and neuroscience that we used appear to support our arguments.

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