The Role of Trust in Customer Relationship Management: An Example to Financial Services Industry

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Abstract

Many of the research studies have previously examined the importance of trust and its association with other constructs. This kind of trust investigations is important because it is the first step in identifying key constructs in the development of trust. However, trust is multi-dimensional. Trust research should not be just about the examination of causal relationships with different constructs. This paper aims at studying the multidimensional aspects of trust in various relational ties. The focus is on the ways of using trust and its association with the related relationship resources. The discussion provides better understanding about trust and relationship ties for formulating various relational strategies, which are the key issues in customer relationship management.

Keywords: Customer relationship management; Relationship ties; Trust

1. Introduction

Customer Relationship Management (CRM) is the latest relational concept to receive “top billing” (Egan, 2001; Gronroos, 1996). With customer-centric philosophy (Sheth et al. 2000), CRM is associated with the use of technologies in managing relationships (Rigby et al. 2002; Ryals, 2000). Companies use newly technologies to assist them in dealing with customers. However, many statistics show that more than half of all CRM initiatives fail to produce the anticipated results or bring companies to negative trend. The major question raised for consideration is that some companies put too much concentration to boost the development of CRM with the advanced computer systems or software. Some researchers would even adhere to use technical solutions in solving relational questions. Crosby (2003) points out that the CRM implementation is only about “customer relationships” in name and aims at reducing costs and putting more responsibility on the customer for self-service. Indeed, technical solutions are not the ways to settle customers’ problems but they are just covering them. Kotler and Armstrong (2003) indicate that CRM has been defined narrowly as a customer database management activity but the term has a broader meaning. It should be related to the overall process of building and maintaining profitable customer relationships by delivering superior customer value (Kennedy et al. 2001; Slater & Narver, 2000). Hence, relational approach should be the key focus in the whole process, not technologies, and the goal of the approaches is to derive valuable information in optimizing customer relationships.

The principal objective of this paper is at emphasizing the use of trust in different relational ties – the most important approach in the customer relationship management. First, trust is important because it has been regarded as an essential ingredient for successful relationship (Garbarino & Johnson, 1999), and a necessary element for long-term orientation (Anderson & Narus, 1990; Andrews & Delahay, 2000; Doney & Cannon, 1997). It is important in an exchange relationship because it leads to constructive dialogue and higher levels of trust facilitate mutual acceptance and openness of express (Andrews & Delahay, 2000; Chong, 2003; Dirks & Ferrin, 2001; Jevons, & Gabbott, 2000; Kramer, 1999; Loomis, 1959; Pruitt, 1981; Singh & Sirdeshnukh, 2000). Without trust, it is not easy to get more information from customers. Thus, trust research studies have been performed in different disciplines and have illustrated the significance of trust in maintaining long-term relationship and its association with information. Second, in order to investigate the construct of trust more, researchers increasingly examine it as multi-dimensional. For example, Doney et al. (1998) mention five bases of trust with different underlying behavioral assumptions – calculus (taking opportunistic behaviors and seek to maximize self-interest), prediction (performing in consistent and predictable ways), intentionality (gearing towards others not own intentions), capability (assessing the abilities in promise fulfillment) and transference (drawing on proof sources). Mayer et al. (1995) suggest that a person’s ability, benevolence, and integrity are the primary facets in trust. Mishra (1996) identifies four dimensions of trust–competence, openness, concern and reliability. Under different-situations, specific bases of trust are emphasized. These show the dynamic and complex conceptualization of trust.

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However, these investigations are focusing on the explanation of different trust bases and most of them do not examine within various relational contexts. This paper aims at fulfilling the gap found in trust researches and assisting companies to formulate better customer relationship management strategies. In the following, the constructs of trust and relationship ties are examined. The use of trust in various types of relationship ties and its association with the related relationship resources are discussed.

2. Trust and Relationship Ties

2.1 The Meaning of Trust

A lot of research studies have been performed to identify the importance of trust in relationship development between a buyer and a seller (Anderson & Narus, 1990; Doney & Cannon, 1997; Ganesan, 1994; Morgan & Hunt, 1994). In the Western interpretation, trust means taking another’s word as fact (Bradach & Eccles, 1989). It exists when one party has confidence in another party’s reliability and integrity (Hansen et al. 1999; Hwang, 1987) that are associated with such qualities as consistent, competent, honest, fair, responsible, helpful and benevolent (Adler & Kwon, 2002; Dwyer & Lagace, 1986; Larzelere & Huston, 1980; Moorman et al. 1992).

In the Chinese perspective, trust seems to have similar interpretation as in Western. As referring to the Chinese character, “xin”, the word of trust is constructed by “a person” and “a word”. It is about an individual’s attributes in fulfilling the words. But sometimes, trust is not just translated to “xin” simply in Chinese but the term of “xinyong” will be taken. Tong and Yong (1998), provide an explanation that xinyong literally means the use or usefulness of trust. They refer the term to the integrity and credibility and relate it to a person’s credit rating. However, this kind of explanation has forgotten the true emphasis of the term “xinyong”. The major focus should be in the aspect of “yong” (use). The person has high credibility not because he is by nature to be, but because he shows that he is. “Xinyong” should be on personal capability attribute, but not only on personal characteristic attribute. Referring to the Analects of Confucius, the concept of the abilities in fulfilling promises has been shown: “… whatever a gentleman conceives of, he must be able to say; and whatever he says, he must be able to do (13.3)” (Leys, 1997). The statement illustrates that a person is to be regarded as a trustful person only after numerous fulfillment of promises. This concept of trust is especially important in the context of high interpersonal contacts, like the Chinese society.

2.2 Relationship Ties

A Chinese person is fundamentally a social or relational being in accordance with the Confucian philosophy. Developing and cultivating relationship is a common preoccupation and a form of social investment in China (Yau et al. 2000). The word “guanxi” is often used. It refers to “relationship”, “social relationship” or “social connection” in the Western literature. In the explicit meaning, guanxi and relational exchanges share similar meanings as exchange partners are with long-term perspectives. But, in the implicit meaning, guanxi carries another implication to relationship classification as dividing people into different types of guanxi can assist people to deal with others accordingly (Tsui & Farh, 1997; Wei & Xi, 2001). Therefore, “guanxi refers to the credit which a person or a group has with others, based on the giving of assistance or favors, or deriving from personal recommendations” (Child & Mollering, 2001). It leads to “in-group” and “out-group” concepts, which is related to the interpretation of strength-of-ties.

The strength-of-ties literature is primarily concerned with the nature of the relational bond between two or more social actors, as well as the effect of this bond on their information sharing activities (Frenzen & Nakamoto, 1993; Granovetter, 1973; Hansen et al. 1999; Ismail & Kwee, 2003; Morrison, 2002; Uzzi, 1999; Uzzi & Lancaster, 2003). Social network theorists have focused much of attention on structural properties of networks (Adler & Kwon, 2002), such as structural holes at the network level (Burt, 1992) and tie strength at the dyadic level (Granovetter, 1973). The established networked relationships lead different parties to several benefits, for example, facilitating the collaborative processes (Frenzen & Nakamoto, 1993; Hansen et al. 1999).

Research using the concept of relational ties was initiated by the study of Granovetter entitled “The Strength of Weak Ties” and his work named “The Strength of Weak Ties: A Network Theory Revisited” (Marsden & Campbell, 1984). With Granovetter’s study, relationship ties are usually categorized into two types: strong ties and weak ties (Granovetter, 1973). Emotional support and high intimacy are the most important indicators of strong ties. Weak ties are with lesser affective support. On the other hand, some researchers are investigating the impact of structural bonds (Burt, 2001). There are two types of relational ties. Direct ties are a kind of predetermined relationships, such as family, kinship and locally tie. Indirect ties are those without any blood relationship. These four types of relationship ties illustrate two major aspects in studying relationship ties– emotional and structural bonding. Based on these two dimensions, four types of relationship ties are suggested as shown in Figure 1. They are back-up tie, transference tie, information tie and contact tie. The first two types are related to “in-group” concepts whereas the last two refer to “out-group” one. The back-up tie refers to the one with strong emotional and direct structural bonding, which can be found in families and with close friends (as they also treat others as brothers or sisters). The transference tie is the one with strong emotional and indirect structural bonding. The persons are mostly the friends of kin and
to Yang (1996), strong tied relationship guarantees higher way for respondents in securing their first jobs. According providing support. Bian (1997) finds that it was the common maintaining and strengthening the existing relationship– trust is important because trust is the central element in discussion can assist people to formulate different relationships– this is the key issue in customer relationship management. Encouraging connections among people means influence. Indeed, influence is a kind of voluntarily usage of maintenance of relationships in this tie. There is a belief about each other. Therefore, the use of benevolence assists to care and consideration for others. Abrams et al. (2003) point out that frequent and close toward others– not themselves (Doney, et al. 1998) since the study of relationship ties can provide better understanding about the resources in each tie that help to develop and maintain trust further. Granovetter (1973; 1975) distinguishes two kinds of resources– information and influence. Weak ties are useful in spreading information whereas strong ties are to be more advantageous in accessing influence. Indeed, influence is a kind of voluntarily usage of personal information to achieve particular aims.

Under different ties, specific bases of trust will be emphasized. The implication between relationship ties and trust is important because trust is the central element in maintaining and strengthening the existing relationships–this is the key issue in customer relationship management. Encouraging connections among people means enabling trust to flourish (Prusak & Cohen, 2001). The discussion can assist people to formulate different relational approaches.

3.1 Back-up Tie

The easiest way to ask assistance is from the back-up tie. The persons in this tie will mostly try their best in providing support. Bian (1997) finds that it was the common way for respondents in securing their first jobs. According to Yang (1996), strong tied relationship guarantees higher level of trust as a set of mutual obligations for the interacting parties has been inherited in the relationship (Chung & Hamilton, 2001). Particularly, normative obligations in performing different roles in families and close friends are expected (Hwang, 1987; Yang, 1996). Close friends are included in the dense relationships because they address each other as brothers or sisters. Whenever one comes to ask a person’s help, he needs to do so; it is his obligation in kinship and friendship. If he denies his obligation, he may pay the price of losing “guanxi” and may be disregarded as untrustworthy. Actually, the suggested back-up tie is similar to Hwang’s (1987) expressive tie, which renders an individual’s feelings of affection, warmth, safety and attachment to others in his/her close circle. But the importance of getting influence has not been indicated fully. Hence, the name, “back-up”, is given.

In order to maintain the close relationship in the back-up tie, benevolence is the key facet of trust to be used. This is similar to the “intentionality” base used by Doney et al. (1998). But since the word “intentionality” gives an impression that persons are evaluating others based on different motivations and intentions, benevolence gives better indication to care and consideration for others. Ganesan and Hess (1997) explain that benevolence is about “a genuine concern and care for the partner through sacrifices that exceed a purely egocentric profit motive”. This explanation is similar to one used by Mayer et al. (1995) and to Chinese interpretation of benevolence. People are geared toward others– not themselves (Doney, et al. 1998) since they will try to fulfill their obligations to others. Abrams et al. (Abrams et al. 2003) point out that frequent and close interactions typically lead to positive feelings of caring about each other. Therefore, the use of benevolence assists the maintenance of relationships in this tie. There is a belief that those helpful and rewarding people are usually considered as trustworthy (Deutsch, 1973). People support fully to those who can show their benevolence toward them. In addition, since close relationships leads to deep dependence, the risks involved are cheating, abuse and neglect. Sheppard and Sherman (1998) suggest that benevolence and concern are the key qualities of trustworthiness in this relationship ties.

3.2 Transference Tie

On the other hand, since it is not possible that the persons in the back-up tie are in the required positions or rankings, people may use the transference tie to establish relationship with those persons. The finding of Bian (1997) showed that respondents could obtain better positions than the ones who used the first approach. The reason is that the intermediaries are with close relationships to the job searchers and helpers, being the focal points to ask for assistance. The successful rate in obtaining better jobs is increased. This is the effect of the transference tie, which is the most complex one amongst the four relationship ties. The inter-linkage between the back-up tie and the trans-
ference tie is shown with the transference of trust and the transference of obligation, thereby providing the reason why this type of relationships is called “transference tie”.

The transference tie is supported by the note provided by Yang (1996) to describe the situation in interviewing a factory deputy manager: “Old Liao and I have been close friends for a long time. Since it was old Liao who introduced you to me, it must mean he trusts you, so I trust you too. Besides, since you are his friend, helping you is helping him too”. When a person introduces another person, his friend will trust and take his obligations to the new comer as toward his friend. Doney et al (1998) explain: “a transference process may be triggered when a strong interpersonal network exists … that allows trust to transfer readily between individuals”. Therefore, the debtor must be very careful in tackling his relationship with the helper. Otherwise, not only the relationship between the debtor and the helper will be damaged but also the original relationship with the person in the back-up tie will be affected. In order to prolong the relationships, the debtor needs to use the tactics in repaying the debt both to the intermediary and especially to the helper. An immediate repayment for all debts is considered inappropriate in establishing long-term relationship (Yang, 1996). Thus, the promise of return is rooted in the establishment of this kind of relationship. If a person does not follow the rules or refuses to return a favor for a favor, he will be deemed as untrustworthy and socially unacceptable (Yau et al. 2000).

The base of credibility in trust then needs to pay attention. It is similar to the facets of capability mentioned by Doney et al. (1998) or ability used by Mayer et al. (1995) in the explicit meaning. Other researchers (Jarvenpaa & Tractinsky, 1999; Kotler & Armstrong, 2003) support the view that the identification of proof sources is the indispensable process in establishing transference trust; those proof sources can be information from friends and relatives. Therefore, it is critical to identify the credible sources. In the implicit interpretation, the word “credibility” in the Chinese context has the implication about the abilities in repaying a favor or a debt in accordance with the norm of repayment in Chinese culture. Credibility is one of the important factors in forming social networks (Birley, 1985). People create their own reputational system promoted by gossip or meetings where information is exchanged about the credibility of various partners (Hardin, 2002). On the other hand, the word “capability” is with some meanings of expertise and competence in fulfilling a task and the word “ability” is with a broader sense. Therefore, credibility will be used. In order to gain the bridging impact, credibility in repaying favor needs to be emphasized.

3.3 Information Tie

In some situations, wider connection is required as the reach point may be beyond the scopes of back-up tie and transference tie. Information tie is then for gathering different kinds of information, for instance, comments on the new product or service, thereby giving the reason for its name. Actually, the persons still have some normative obligations for them to fulfill, for example to a distant relative. Therefore, the openness dimension of trust suggested by Mishra (1996) is used. It means expressing ideas and information freely and with honest. Since the major purpose is to gain valuable information, which may not be obtained in strong ties, it is necessary for the parties involved to share information openly. Burt (2001) explains this paradox with the arguments of bandwidth (i.e. saying that network closure enhances information flow) and echo (i.e. saying that closed networks do not enhance information flow so much as they create an echo that reinforces predispositions). After the survey with three populations, the empirical results support the echo argument. The major reason is about etiquette. This is similar to the case in the Chinese context. Based on the Confucian teaching, the maintenance of harmony is the key concept. It is offensive in criticizing others or providing feedback that is not requested or is unwanted (O’Keefe & O’Keefe, 1997). Most members in strong ties will alter their opinions upon their understanding to others towards some sensitive issues. Therefore, it is important for using trust to obtain more valuable information in the information tie.

3.4 Contact Tie

To the contact tie, this is not the major focus for the investigation because the network is so huge in this tie. The major resource in this tie is about the endless list of contact points. It is general that people have a wide circle of acquaintances and they are willing to introduce others to the known ones, for example, in a conference. But the type of information is still in data form, which carries no particular meanings. Therefore, the calculus base of trust is proposed to use. Lewicki and Bunker (1996) explain that calculus-based trust is for the pragmatic and rational consideration of self-interest between interdependent parties whose compliance is ensured by a system of punishments and rewards. Therefore, calculus-based trust characterizes to be used in impersonal and arm’s length relationships. Since it is the introduction stage, mutual understanding in the aspects of capabilities, concerns and others are the major targets. Trust is based on rational evaluation in this stage (Tzokas & Saren, 2000). The use of trust is for gaining more contact points.

In general, some researchers (Granovetter, 1973; Uzzi, 1996; Uzzi, 1997) believe that strong ties, especially those with high intimacy and emotional support, mainly produce trust. This leads to an assumption that trust cannot be found in weak ties or arm-length relationships. Nevertheless, an argument in this paper is that certain bases of trust are used to maintain the relationships in weak ties. Especially, the information tie is principally for obtaining a wide range of information. It is important to note that some of reliable
information may be obtained from weak ties, instead of strong ties. Therefore, Granovetter’s identification of resources in relationship ties is supported but the concept extends to the use of trust. Trust in strong ties is for gaining assistance and influence whereas trust in weak ties is for obtaining wider scopes of information. The key points are summarized below:

4. Implications to Financial Service Industry

In order to illustrate the use of trust in the formulation of different relational approaches, the financial service industry will be used as an example. Many financial service providers have transformed their corporations and implemented or changed their policies in order to strengthen their relationships with customers. How does a company use trust (“xinyong”) to different customers? In what ways does the use of trust assist in maintaining and strengthening the long-term relationships with customers?

First of all, the classification of different relationship ties should be identified. The in-group members are a group of the existing clients that a company is dealing with. As for the ones in strong ties, they are the most profitable clients, who are the key foci in implementing relational approach. Referring back to the concept of customer relationship management, it is building on the thought— all customers are not equal. This is 80:20 rule of thumb that 80% of profit is generated by 20% of customers. The concentration in expanding businesses should be in strong ties. Therefore, the first step in customer relationship management should be about the identification of back-up and transference ties. More intimacy approach and more credibility enhancement approach can be formulated for maintaining long-term relationships with the persons in these ties.

For example, the large banks in Hong Kong, such as, HSBC, Standard Chartered and Citibank, have announced negative interest rates for those customers with fewer than five thousand dollars in their accounts in 2001. This strategy has surprised the public who has a deep-rooted concept that banking service is free. In essence, this policy is for the banks to divide the unprofitable group of customers from the profitable one, just like the “strong ties” and “weak ties” division. The corporate resources can be redirected from the lesser value customers. Then, the policies for high value customers are about benevolence and credibility approach. The banks promise to provide superior services for customers with high long-term value. They are willing to spend more time to understand the customers’ needs via various platforms, for instance, personal financial center, phone banking, self-service banking and e-banking. Through advanced technology and cyberspace communications, the connection with customers is not restricted to personal contact but can be established electronically. In addition, high-net-worth clients will enjoy more benefits; just as the clients of Charles Schwab who trade at least 12 times a year or have at least $100,000 in investable assets online, they can enjoy the scheme of “Special Active Trader Commission Discounts” or no-cost and no-obligation referral services. Hence, valuable clients can obtain more reliable services and concerns than before.

Going to the insurance industry, the division of customers in “strong tie” and “weak tie” are much clear. Strong supports are needed from customers in back-up tie and transference tie— their long-term purchases and their strong referrals to their close friends and relatives. Therefore, the approaches of sending cards, gifts or follow-up calls are showing the sides of benevolence and credibility. Furthermore, the recent adopted promotion campaigns in street-level and on the Internet are for expanding the scope of information and contact ties. Nevertheless, some visitors are still hesitant to provide personal information in such street level and subtle cyberspace. Companies should reconsider the use of different relational approaches.

To be specific, one of the ways to use the suggested trust-based tie relational approach in the insurance industry is for performance measurement. Mostly, the insurance companies usually treat head counts of clients as determinants of winners and losers. Agents who claim that they have the highest number of clients are called winners. There is no doubt that a head count of clients is an easy way to measure the success of agent and this is used in the calculation of bonuses or criteria for the consideration of promotion. But this is not a reliable method. It is possible

| Table 1. Summary of the Key Points for the Research of In-group Trust |
|----------------|----------------|
| Relationship Tie | No. of Relationships |
| Back-up tie | Very Few |
| Transference tie | Few |
| Information tie | Some |
| Contact tie | Many |
| Resource in Relationship Tie | Use of Trust Base |
| Full support | Benevolence |
| Bridging impact | Credibility |
| Wide range of information | Openness |
| Data | Calculus |
| Use of Trust | Studies |
| | e.g. Sheppard and Sherman, 1998; Abrams et al., 2003 |
| | e.g. Birley, 1985; Jarvenpaa and Tractinsky, 1999; Kramer, 1999; Hardin, 2002 |
| | e.g. Mishra, 1996; Burt, 2001 |
| | e.g. Lewicki and Bunker, 1996; Tzokas and Saren, 2000 |
for an agent to have the highest number of clients but with the lowest amount in premiums per account. An agent will win in the game, but he/she may not be the one with the greatest contribution to the insurance company. In addition, two more problems are related. First, agents may waste resources carrying out relationship development strategies with clients in the circle of low sales volume. Secondly, the head count policy discourages agents from implementing relational approaches. In a worse case, some agents may make a great effort to entice clients to buy life insurance but then become sluggish in fulfilling their responsibilities. Therefore, it is suggested that insurance companies include premium size per head count as one of their performance measurement criteria. Appropriate indicators to measure the performance of agents include the average amount of premium per client and the number of clients that comes from referrals. This means that agents need to provide more information about their back-up and transference circles. The performance evaluation is also based on their abilities in maintaining and developing long-term relationships with their clients, instead of their capabilities in enlarging their information and contact ties.

Most importantly, the companies need to provide comprehensive training to agents in the ways to narrow the gap between clients and agents—i.e. trust building training. Unlike insurance product knowledge that can be comprehensively taught in lessons, trust-building training is an art and should be learnt through on-the-job training. It is a challenging task to relationship managers as to design appropriate training courses, both theoretical and practical, for their agents. For example, agents need to understand when they should adopt benevolence and credibility strategies in maintaining high level of trustful relationship with customers.

5. Conclusion and Direction for Future Research

Based on the framework of this paper, two major foci about CRM have emphasized. The first one is about the implications of trust in relational approach. Previously, many of the marketing research studies have examined the importance of trust and its association with other constructs (Morgan and Hunt, 1994). This kind of studies is important because it is the first step in identifying key constructs in trust development. Nevertheless, trust is multi-dimensional. As mentioned before, Rousseau et al. (1998) comment that trust research should not be just about the examination of casual relationships in different constructs. The depth of trust investigation is more important than the breadth. Therefore, the researches studying the multi-dimensions of trust (Doney, et al., 1998; Ganesan & Hess, 1997; Ganesan, 1994) have shown the dynamic and complex conceptualization of trust. But there is still a problem behind. They miss one important point— the role of trust in different types of relationships. Trust is an important construct because it is the key element in maintaining and strengthening the long-term relationships. The true meaning of trust is about its usage in different kinds of relationship ties, i.e. “xin-yong”. This forms a framework for further trust research study. It is valuable to examine the ways to divide customers’ relationships into different segments and adopt different trust strategies accordingly.

The second focus is about the investigation of trust in the Chinese context. Some Western researchers have misunderstood the situation of trust. For example, Fukuyama (1995) classifies the Chinese society as a low trust one. The problem is on the investigation of trust among various relationship ties. Especially in the Chinese context, people prefer to divide others in different groups and then treat them differently. But it does not mean that they will fix their boundaries of in-group members. They will still trust those outside their families based on the persons’ original relationship ties. Thus, the question in maintaining long-term relationships with customers should go back to the investigation of trust in relationship ties. The use of different dimensions of trust is for fulfilling the requirements in every relationship tie and the expected behaviors provided by relational norms. Hence, this study can provide a basis for understanding the advantages in using different dimensions of trust to various relationship ties, especially the bases of benevolence and credibility for strong ties. More effective strategies for customer relationship management may be formulated.

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