

# Trust as Intangible Asset - Enabling Intellectual Capital Development by Leadership for Vitality and Innovativeness

Taina Savolainen<sup>1</sup> and Palmira Lopez-Fresno<sup>2</sup>

<sup>1</sup>University of Eastern Finland, Dpt. of Business, Finland

<sup>2</sup>Spanish Association for Quality, Spain

[taina.savolainen@uef.fi](mailto:taina.savolainen@uef.fi)

[correo@palmiralopezfresno.com](mailto:correo@palmiralopezfresno.com)

**Abstract:** Trust has become an essential intangible asset in organizations and leadership. Trust promotes social order and cooperation in workplace relationships. It is a resource that creates vitality and enables innovativeness. The paper discusses and examines the highly timely topic of trust from the human intellectual capital (HIC) perspective. More specifically, the focus is on the role trust plays in renewing intellectual capital by leadership. In the paper, trust is viewed in a relational context describing the positive expectations of a respectful human behaviour. Originality of the paper is based on the two ideas of both theoretical and practical significance. First, exploring and conceptualizing trust as intangible asset, resource and skill in organizations. Second, examining how trust in leadership enables HIC development and how it affects. The paper provides a novel view into managing intangibles, since trust as intellectual resource and a leadership skill in relation to HIC development have hardly been examined integrated. The main point highlights the importance of leadership by trust in enabling the growth and utilization of HIC. The paper advocates the idea that, in managing knowledge, it is important to increase understanding of the interaction among different aspects of KM. The value intangible assets, such as trust, add to human resource development (HRD) is multiple and still poorly understood. The paper presents also two real life case studies of how leadership by trust enables vitality and innovativeness in organizations. The case studies examine the sharing of tacit knowledge and co-creation with customers.

**Keywords:** human intellectual capital, innovativeness, intangible assets, leadership, trust, vitality

## 1. Introduction

Competitiveness in organizations is currently based on quick capacity for renewing and effective utilization of opportunities and capabilities that are mainly human and intellectual (Slockum et al., 2008). Renewal capacity is a more and more important quality in organizational management. It is manifested in organizational operations, procedures and processes. Renewal is an ability to implement strategy and respond to continuous changes. As organizations become more knowledge intensive, and event- and opportunity-oriented, a strategic challenge increases for gaining competitive advantages. People and knowledge assets are crucial for achieving such advantages (Wright & McMahan, 2011; Teece, 1998). Development of human competencies and activity builds on knowledge and its sharing, and their varied invocation. This requires collaboration ability for which trust forms a foundation. From this perspective, trust is a significant intangible asset. Trust is created, built and sustained by and between people. Trust building and maintenance deserve careful attention by HRM people and leaders in renewing knowledge and capabilities for vitality and competitiveness (Savolainen, 2011). Therefore, the paper advocates the idea that building and sustaining trust in workplaces becomes more and more important in effective development and utilizing of human talents, skills, competencies and capabilities (Häkkinen and Savolainen, 2008).

When the IC field evolves towards a more multi-focused and multiple research with the flavour of “how IC is” (Dumay, 2012), trust as intellectual resource may play a more important role when intra- and inter-organizational network and relationship practices are studied. Trust has been identified as one of the most frequently examined constructs in the organizational literature lately (Burke et al., 2007). It is a multi-faceted and multi-disciplinary issue that has been widely studied in different fields of science over the last years (Ebert, 2009). Trust is an antecedent of innovative work environments; it is an intangible, *relational asset* for co-operation between people. Relational trust means that it develops in interaction and reciprocal activity between individuals, and within groups and organizations. It is also a managerial *resource and skill* for developing human intellectual capital. Leadership work is mainly about relationships, interaction, communication and collaboration with people. As competition challenges organizations to renew their intangible resources, relational activity such as interaction, co-creation and network relationships are stressed more and more. Trust as relational resource is needed more but is enacted less. This paper focuses on trust as

intellectual and relational resource and leadership skill in the interaction among different elements of knowledge management.

The paper brings a new perspective into discussion, as trust is hardly examined and defined as intangible asset and forceful resource and skill in the leadership context. Yet its role as a collaborative mechanism and in conflict resolving has been recognized. In leadership trust building is seen essential and is listed as one of the main tasks of leaders. Leaders enable trustful workplace climate (Yukl, 2010; Dirks, 2006). The knowledge gap exists in how leaders enact on trustful leadership showing trustworthiness in daily actions (Savolainen and Häkkinen, 2011; Ikonen and Savolainen, 2011). The gap is therefore evident in how trust functions as a valuable leadership resource and skill. The fact that is worth noticing is that leader-follower relationship is a key relationship within work organizations. Not until recently has the role of trust in leadership more widely recognized (Rousseau et al., 1998). It is seen as a well spring for vitality and competitiveness in organizations. In Finland, for example, a paradigm of 'new leadership by trust' for sustaining competitiveness in the future has been raised by the Finnish Innovation Fund (Nurmio and Turkki, 2010). Trust building in leadership has been prioritized as the top theme in leadership development and education.

The purpose of the paper is to add to discussion about trust from the intellectual capital and its renewal perspectives. The objective is to increase awareness of trust in organization and leadership as a valuable intangible resource for people management. The topical questions are posed as follows: Does the organization set goals for people to give their best? Do culture and climate support building and maintaining trust or rather undermine trust? The paper discusses how trust, leadership and renewal of IC are related and what it implies to managing people. Two case studies are presented. They provide findings of leadership by trust in enabling interaction and cooperation for organizational vitality and innovativeness.

## 2. Theoretical discussion

### 2.1 Concept of trust

Trust has been a part of human social life for ages while interest in trust research began to increase and multiply enormously 15 to 20 years ago in the several fields of social sciences (Möllering et al., 2004). As a fairly new research topic trust research has been mainly conceptual until the turn of the new millennium. The research has so far indicated its role as an antecedent of many performance outcomes, but also as *a process* that results from collaborative interaction between organizational actors in processes such as communication, cooperation and information sharing (Burke et al., 2007). Trust has been defined in many ways. Yet, the concept remains without a generally accepted definition (McEvily et al., 2003). Trust is acknowledged to be a relational phenomenon in the literature meaning that it develops over time in interactions between parties (Mayer et al., 1995). In this paper, *the relational definition of trust* is adopted from Mayer et al. (1995: 712) as follows: "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party". Mayer's model looks at the formation of trust between actors in a relational context. This means that trust evolves over time based on repeated interactions and information available and shared between parties. Trust is also a person's assessment of another's trustworthiness which is manifested in competence, benevolence and integrity. Risk taking is at the core of trust, and not taking risk per se, but rather a willingness to take risk (Mayer et al., 1995). Cooperation and confidence are concepts that are closely related to trust (Schoorman et al., 2007). In early trust researchers' work (Deutsch, 1962) cooperation was used also as a synonym for the trust concept. Rotter (1967), one of the earliest trust theorists, defined *interpersonal trust* as "an expectancy by an individual or a group that the word, promise, verbal or written statement, of another individual or group can be relied upon".

Trust is a psychological and functional state. An individual is going to take the risk of being vulnerable with the anticipation that he or she will have a positive expectation of the intentions and actions of another (Dirks and Ferrin, 2002; Rousseau et al., 1998). The person takes action based on his or her beliefs (McAllister, 1995) and may have to face disappointment when expectations are not met. Thus trust in work relationships is dynamic and varying. It grows from the basis of relationships depending on the character and functionality of those relationships.

Trust is a multidisciplinary and multi-level concept. The construct of trust and trust research involve many fields of science, several theoretical approaches, definitions, factors and models (Rousseau et al., 1998; Ebert, 2009). Formation and development of trust have been examined in economic, behavioural and transformational perspectives (Lewicki and Bunker, 1996; Lewicki et al., 2006). Trust is combined of several components – rational, cognitive and affective (McAllister, 1995). In leadership it has been examined from the relationship-based and character-based perspectives (Dirks & Ferrin 2002; Dirks, 2006). The elements that underlie trusting relationships involve the individual's feeling of being competent, safety and caring, a sense of autonomy, consistency and fairness in social relations (Gillespie and Mann, 2004; Savolainen, 2011). In work relationships, such as leader-follower relations, trust has traditionally been based on interdependence and reciprocal influence when common goals are pursued. A relationship exists where there is an element of interdependence (Atkinson, 2004). Trust can be seen as an opportunity to get an access to knowledge and to political, economical and relational resources which are controlled by individuals. It is also an opportunity to create loyal relationships which do not deteriorate or break easily. In the long run, these relationships form a human resource that becomes rooted in and stratifies as social and cultural intangible, inimitable capital for the organization (Savolainen, 2011).

## **2.2 Trust as intangible, intellectual asset**

Trust is recognized as a powerful intangible asset in the development of collaborative workplace cultures (Savolainen, 2011). In organizational renewal, trust is an internal motivational force for individuals. In developing intellectual capital trust works through workplace climate with the sense of community and open communication. In defining human capital Wright and McMahan (2011) refer to Becker's early definition of the concept (1964) consisting of knowledge, information, ideas, skills, and health of individuals. Human intellectual capital includes competences, motivations, communication, sharing of knowledge and cooperation skills, among others. In e-, virtualizing and multicultural world, cooperation and co-creation skills will be the keys for innovations and sustaining competitiveness. The environments of 'coopetition' seem to emerge. They may conquer the most inspiring workplaces to be - the ones that reflect trustful climate.

Trust is intangible resource for both individual and organization. In the workplace context, intellectual resources such as trust are used and "owned" by the organization, in principle. Trust is multi-level and reciprocal in nature. This means that the effects, means and consequences of trust concern both the individual and organizational level. Interpersonal communication and norms create for people a sense of security and an opportunity to identify with a group (Savolainen, 2011). Rewards in work relationships are accumulated by individual players' stable relationships and bonds through consistent interaction, which makes it possible to maintain them. Subsequently, in co-operation one party can trust the other that he or she will not act deceptively trying to gain short term advantage.

Intangible assets are managed by the organizations and are accumulated from the human capital. Human capital is connected to an individual and disappears with him or her in contrast for example to technological capital and information, which is accessible to all (Wright and McMahan, 2011). Even though intellectual assets are strongly grounded on the individual, they are also organizational. The individual builds and breaks trust, but the benefits and unfavourable effects spread to groups and organizations. When individuals build, maintain or violate and break trust, they obtain benefits or losses. More broadly, the effects are seen in different structures and processes in the organizational and societal level. This especially applies ethical activities. An individual's unethical actions propagate detrimental consequences to the organizational level and even the entire society. The most blatant examples of this in the sense of trust are the pyramid schemes, in which one individual's severe violation of trust leads to very serious and vast negative consequences.

In short, intrinsically trust is a fragile intangible asset. It can be built or broken by an individual, but he or she alone cannot utilize it or carry its unfavourable consequences. Trust influences relationships and structures, socially and collectively. At the individual level, trust can be invisible, even "tacit" and easily breakable (Savolainen, 2011) while at the organizational level it is usually more tangible. Trust can be sensed for example in the culture and atmosphere as well as in various relationships, say between a leader and a subordinate. Trust is invisible and intangible but its benefits and consequences may be multifaceted and become visible within and between organizations and actors.

### 3. Trust in organizations and leadership

Pertaining to intellectual capital, trust in leadership plays a two-fold role in organizations. First, trust is an influential force and intellectual resource for leaders in enabling and building trustful organizational climate and relational capital (Savolainen, 2011). Second, leading with trust is a means and skill for leaders to develop human capabilities for the vitality and competitiveness of the organization. Considering that work today is largely expertise-based by nature and is strongly based on creating and sharing knowledge, development of human capabilities and the work environments for utilizing them become prioritized. Currently, trust is put on test and authority is re-evaluated in organizations due to major changes.

When the understanding of intangible assets increased in the 1980s, it became obvious that the organizational performance was greatly affected by its intangible capital (Sullivan, 2000; Slockum et al., 2008). As a result, intangible capital became an issue to leadership. After Stewart (1997) defined intangible capital as mental, human and intellectual asset, it impacted the theories and practices of providing leadership for knowledge and know-how. From the point of view of leadership, human capital is multidimensional and interrelated combination of mental, structural and relational resources (Edvinsson & Malone, 1997). Trust provides an opportunity to get an access to valuable knowledge and to political, economical and relational resources. It is a way to create loyal relationships which do not deteriorate or break easily. In the long run, steady and firm relationships form a human, social and cultural intangible capital to be realized as inimitable competitive advantages (Savolainen, 2011; Nahapiet & Goshal, 1998; Martín-De Castro et al., 2011, Eggs, 2012).

#### 3.1 Leadership role and trust

Leadership is essentially about managing human assets involving activity and processes by which intellectual capital is recruited, developed and retained for the benefit of an organization. Leaders are responsible for knowledge sharing, guidance to learning, motivating and commitment, as well as creating an open, trustful climate needed in renewing HIC. Especially in knowledge based operations, critical assets are human and intangible, and the leader cannot base his/her authority anymore on management position only. The organizational sources of power are more diversified and leadership is shared more and more. The power relations between expert-subordinate and leader are based on knowledge and know-how, while the power of the leader is based on trustworthiness, i.e., competence, integrity and benevolence (Mayer et al., 1995). If the leader wants to be successful, trustworthy behaviour cannot be disregarded. Leadership is an intra-organizational structure but has impact on external relationships in managing customer relationships, in practice, for example developing personnel's relational capital in customer-orientation skills. Thus human capital requires and utilizes interchangeably other intangible capital (Stewart, 1997; Roos & Roos, 1998). This makes the management more complex and challenging. Stewart (1997) points out the differences in leadership between different types of intangible capital. Varying leadership styles are needed. For leaders it is often easier to influence internal structures and relationships through daily actions and vision, mission and strategy which direct individuals and the entire organization to the same direction.

#### 3.2 Leadership by trust - a new focus in leaders' work

Trust in leadership work is largely embedded in the relationships between leaders and subordinates. In changing work environments, a new kind of leadership seeks its role. Leadership is undergoing major global challenges, transformation and renewal. Consequently, role of trust in leadership is apparently a part of this change in working environments. Leadership cannot function any longer solely through an individual leader, position power or hierarchy. New competences and resources through which a leader gains his or her 'right' to lead are to be discovered and developed. For leaders trust is *a way of influence, i.e., trustworthiness* helps to build mutual co-operation and make people to give the best of their competencies. The leader plays a significant and influential role in how the subordinates want to and actually perform. Subsequently the subordinate influences the way he or she benefits the organization. By concluding, *leadership by trust can be defined as a leader's ability, intellectual resource and skill to enable interaction, co-operation and productivity* (Savolainen, 2011). Enabling is central in this. It means both the removal of obstacles and supporting new ideas, solutions and change. This is *the new focus of leadership* based on trust. It is a reciprocal process between people in nature. In everyday leadership, trust provides readiness and ability for social influence. In daily work, it is shown in trustworthiness manifested in ability, benevolence and integrity (Mayer et al., 1995).

In major change, trust building faces some challenges at work places. They are initially leadership based. On one hand, leadership capacity and skills do need renewing because of the dynamic change of leading. On the other hand, leaders initiate and enable the renewal of HIC. Thus maintaining a leadership capacity to deal with uncertainty and change which calls for trust-oriented leaders who are able to coach people and teams. Trust-based leadership assures readiness for change, thus sustaining vitality, well-being, and competitiveness. As trust “belongs” equally to each member of the work community, everyone is responsible to build it. The most common challenges are *cultural hindrances*, such as communication and relational skills (Ikonen and Savolainen, 2011).

### **3.3 Trust in human intellectual capital development**

Despite of the fact that organizations aim to increase (tangible) capital which can be measured by financial indicators, strengthening co-operation between actors is among the most important attitudes and means to assure the growth and learning of internal IC. Intangible capital, such as knowledge or trust, can grow or disappear just like financial or other kind of capital if not developed continuously.

The relational resources, that are essential for trust formation, are created by human activity. The organization is built upon the people and their talents as well as their knowledge and expertise. Relational capital is quite generally defined to consist of the organization’s external relations to interest groups, such as customers (Edvinsson & Malone, 1997). However, relational capital is more multidimensional involving also *intra-organizational interaction and relationships*. This view has not been specifically emphasized when relation-based intellectual capital is discussed. It is noteworthy that individual human capital may also include inherited and personal character traits such as intelligence, flexibility, and relatively consistent temperamental characteristics such as openness or introvertedness. These factors are relatively permanent. However, they may be important prerequisites for renewing and development of HIC, and to potential to build trust. Current research shows the connection between trust and organizational performance (McEvily et al., 2003). Dirks and Ferrin (2002) studied the impact of trust on how talent, knowledge and expertise are utilized in their full potential in an organization. According to their empirical research covering 40 years, trust plays an important role in the employee attitudes and behaviour. It is seen in more positive work attitudes as well as in a willingness and ability to co-operate.

Kong & Thomson (2009) have found out that personnel and human capital are not as effectively and easily mobile as has been expected in the phenomenal mobility volume of work force in the global context. Mutual trust facilitates and secures the effective use of know-how and expertise (Reychav & Charkie, 2010; Häkkinen & Savolainen 2008; Savolainen, 2008). This is an important notion on leadership and HIC development in the mobile world. Yet, the effects of lack or failure in leadership can be even fatal for the organization’s performance. There are examples of failed leadership in the studies of crisis companies (Probst & Raisch, 2005). Too strongly centralized leadership structure can lead to a crisis and a feeble (vitality-lost) organization. As a result, the failure may occur.

#### *Trust in knowledge sharing*

As knowledge acquiring, creation, sharing and utilizing are central to the renewal of HIC, trust provides a strong potential for stimulating and enhancing these processes. Trust has similarity to tacit knowledge, as it may be very unique personal knowledge and know-how embedded in relationships (Savolainen, 2011). As important as tacit knowledge is for gaining competitive advantages for organizations, it is elusive in nature. Consequently, it tends to remain unarticulated; it is difficult to understand, observe, acquire and share, and diffuse in the organization. By definition, tacit knowledge is shared through people which is a social, interactive process. Sharing increases a willingness to change which lead to a higher development activity. Thus, sharing knowledge calls for trust which requires positive attitude to co-operation. It may specifically reveal how trust is adopted and utilized as an organizational resource and intangible human ‘talent’ in knowledge management. The entire idea to studying the role of trust in tacit knowledge sharing is that *unless shared tacit knowledge is not converted to explicit and cannot be utilized for HIC development*.

In the conceptualization by Nonaka and Takeuchi (1995), explicit knowledge is defined as easily identifiable, easy to articulate, detain and share. It is in written forms such as books, reports, etc. Tacit knowledge is defined as consisting of intuition, feelings, perceptions and beliefs deeply embedded in the ways of thinking,

talking and working, and in relationships. It is thus complicated to articulate and express which makes it difficult to convert, transfer and share between people. People need good grounds, motives and supporting atmosphere for sharing. Leaders are key role models and supporters. A good example of enabling knowledge sharing in people management is trust building in newcomer's *job orientation* process (Häkkinen and Savolainen, 2008). It seems that for the new staff member job orientation is an invaluable and unique opportunity for trust building. When the newcomer is introduced to positive interaction and sharing of information from the beginning, at best it leads to effective learning and socializing.

### 3.4 Creating vitality and innovativeness by trust-based leadership

Organizations are in need for vitality in order to sustain renewal capacity, innovativeness and competitiveness. Vitality is about energy, will, spirit, emotions, activity, influence, collaboration, courage and ability to see opportunities and make changes. Vitality is enabled by different resources such as social and cultural foundation and heritage of organizations (Savolainen, 2011). Trust belongs to these intangible resources. Leaders enable and create (or ruins) vitality (Probst & Raisch, 2005).

Trust creates basic vitality and energy that *enables* growth and revitalization of human capital in organizations, and profitable performance accordingly. It can be seen in people's enthusiasm, as well as *fully utilizing their different skills, abilities and talents*. One example is a change process in which people are able to take risks while continuously facing the unpredictable. Trust gives birth to vitality and vitality strengthens trust. Practically speaking, it means courage and readiness to deal with different opinions and perspectives. Conflicts and tension in an atmosphere of trust can also produce positive energy which results in active interaction and courage to make a difference (Nurmio and Turkki, 2010).

If an organization's vitality is depleted or is not maintained, these "feeble" organizations face unfavourable development and even crisis. The organization's overload or premature aging can lead to its impotence (Probst and Raisch, 2005). This can be a result of overheated growth speed or respectively of slowness; in other words, of strong change resistance. It takes creativity and flexibility to apply new ideas and decisions. Trusting relationships can empower the organization to success just in a time of great uncertainty. When people trust their colleagues, their energy can be focused on the core activity instead of games, politics and control (Savolainen, 2011).

In summary, trust gives work places vitality, which stimulates innovativeness for sustaining competitiveness. Continuous change requires leadership development and leaders' increasing understanding as well as new efforts to remove organization cultural obstacles from the way of trust-based leadership. The organization will benefit if each party invests in trust. Nahapiet & Ghoshal (1998) state that it is in the everyday routine of both (parties) where the skills to create and share human intellectual capital will be manifested.

## 4. Empirical case studies

### 4.1 Leadership by trust in tacit knowledge sharing

#### 4.1.1 Methodology, data, and the case company

The first case study examines the role of trust in developing intellectual capital. The case involves the sharing of tacit knowledge in a project-based organization (Savolainen, 2011, 2008). A qualitative methodology was selected *based on the scarcely studied topic* and the purpose of the study to gain more understanding of the abstract topic of trust and tacit knowledge sharing (Yin, 1994; Myers, 2009; Serenko *et al.*, 2010). The key research questions are as follows: *how does tacit knowledge appear (forms), how is it shared (methods) and what role does trust play in sharing*. The case study data were gathered by in-depth interviews. Six project workers, who form a project group, were interviewed including a project manager. Theme interview method was used which means that the main themes were listed before the interviews. All interviews were recorded and transcribed. The interview data were analyzed by a thematic analysis according to the content of interviews. The analysis was theory-driven based on the theoretical framework developed for the study.

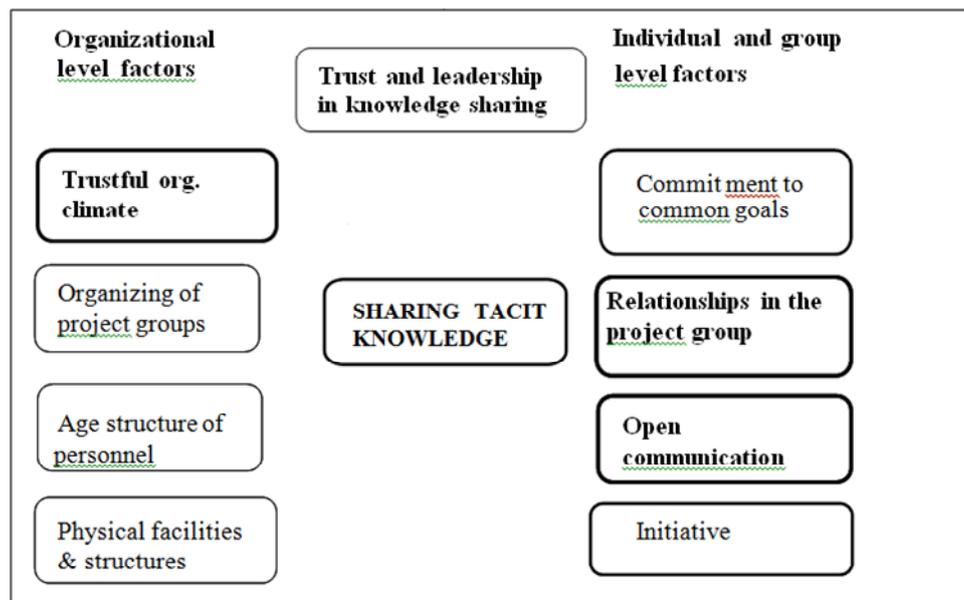
The case company is from the service sector, a Finnish small construction engineering company focusing on structural design. The company's operations are entirely performed in projects and project groups. The company employs 19 people. There are approximately four project groups working in the company at the

same time. The combinations of the groups may or may not vary between projects. Projects may last from 6 months to over a year.

#### 4.1.2 Key findings

The results reveal four *forms* of tacit knowledge as follows: Professional knowledge (sound expertise and quality of work); Management of group dynamics (interaction skills and ability to collaborate); Management of entities (ability to see the essence and relations between parts); and management of knowledge resources and base (recognizing and meeting the need for key knowledge). A uniting factor for these four elements is *experience* and its importance in the evolvement of tacit knowledge. The knowledge evolves from experience and becomes evident as sound and fluent practical capability.

The findings show that tacit knowledge is *shared by several methods*. Six main ways emerge as follows: interactive verbal advising, modelling, joint problem-solving, guiding to learn, job enrichment, and initiation into the company. In addition, mentoring, work in pairs, tutoring and sparring may be used. E-mail is perceived as a 'hard' and straight forward form of conveying knowledge yet used in sharing electronically. Tacit knowledge *is shared in an interactive process* between group members. Several individual, group and organization level factors are discovered that affect the sharing of tacit knowledge by leadership. The most important of them are highlighted in Figure 1. On significance of initiation in building trust with new employees see Savolainen (2011).



**Figure 1:** Leadership by trust in tacit knowledge sharing: affecting multi-level factors (adapted: Savolainen, 2008, 2011).

#### 4.1.3 Conclusions and implications

The findings show that trust facilitates the activity of sharing tacit knowledge in the group. The leaders play an important role in this. Trustful leadership enables interaction, communication and cooperation. Sharing occurs as an interactive process between actors. The *process pattern* emerges in the study as a new and interesting finding. Organization-, group- and individual-related factors affect the stages in the process of sharing knowledge. They seem to appear in combination, overlapping and as a whole. The sharing of knowledge appears as a chain of events starting from the identification of key knowledge needed and the individuals in need of knowledge. The process proceeds to choosing methods of sharing. Sharing and receiving knowledge occur in *personal interaction* leading to utilizing of knowledge. Finally, internalizing of knowledge takes place if *willingness and motive* for knowledge storing on the individual's personal knowledge base exists. This is an important finding from the learning point of view. Motivation requires trustful leadership which enables willingness to grow and learn. The individual level growth of vitality strengthens vitality at the organizational level leading to innovation activity through learning and sharing.

*In conclusion*, the group dynamics and workplace climate seem the most critical factors in sharing of tacit knowledge (Figure 1.) They are shown by trustful climate, *open communication, functioning relationships between group members and commitment to common goals*. Trust appears e.g., in a frequency of interaction and communication consequently, keeping deals and promises, and in guidance to learn. Most of the issues and challenges related to tacit knowledge sharing are about interaction between people and (dys)functional workplace relationships. Trust creates openness and freedom and slackens control through trustworthy leader behaviour involving skillful, benevolent and integrative mundane actions. Thus, leadership by trust may be a powerful intangible asset in the workplace for renewing of HIC which reinforces good workplace climate and makes knowledge sharing more effective (Savolainen, 2011).

The main *implication for managers* is that trust between group members is needed for stimulating knowledge sharing, and the innovative 'spirit' of learning in order to develop intellectual capital. Leaders should especially pay attention to developing and maintaining trusting relationships between and within groups to assure knowledge generating and sharing. Leaders social and communication competencies should be developed as well. In daily practices, leaders should communicate informally and they need to be aware how they could show trustworthiness by small daily deeds.

## 4.2 Leadership by trust in customer cocreation

### 4.1.4 Methodology, data, and the case company

The second case study examines the role of trust in enabling (or undermining) interaction and cooperation in knowledge sharing with stakeholders for organizational vitality and innovativeness. Specifically, the focus is in customer co-creation. A strategy for service innovation was coproduced with end-users as external sources of knowledge (Chesbrough, 2011a, b; Rubalcaba et al., 2012). As in the first case study, a qualitative methodology was applied (Yin, 1994; Myers, 2009). Case study data were gathered by in-depth interviews (four corporate directors, two department directors from marketing and customer service, and four employees from the same departments). The analysis of the case study data was based also on written and textual material available on the company's web page, several blogs and twitters and other internet and printed (press) material; moreover, participatory observations were made during the researcher's attendance to conferences where the company presented the co-creation program.

The case company is from the service sector, the airline enterprise, set up in 1986. It was the second major airline in Spain for years, with over 40 aircrafts and 1800 employees (López-Fresno and Fernández-González, 2002). The company was characterized by the vitality, grounded in employees' strong motivation, commitment and experience. People were prepared to successfully face new opportunities with a spirit of collaboration. A climate of trust was perceived and sensed at the time; a corporate climate underpinned by the leaders, who stimulated interaction and cooperation for better productivity and innovativeness. As of 2001, the airline sector faced a global economic crisis. A new CEO was appointed; company downsized in aircrafts and employees and an important cost-reduction project was implemented, but the change process was not managed properly. Trust deteriorated and vitality started to decrease. In 2009 the company was sold. Top management was almost entirely renewed and headquarters was moved to another city. Many employees were fired or forced to resign. Change process was managed poorly, with the direct involvement of the newly appointed Chairman & CEO. Employees lost motivation and distrust spread throughout the company. Trust building was not among the priorities of top management. Conflicts occurred and developed even worse. Cooperation and collaboration activity among employees decreased; so did also service quality. Productivity, innovativeness and competitiveness recessed.

The new owners intended to rebuild the image of the company (new logo, new headquarters and values). They had a vision to build an 'emotional/hedonic' link with customers (Brown, 2001; Dermody, 1999). It was based in the political nationalist feeling existing in the region where the headquarters was moved to. "*The company of all of us*" was the new slogan. Based on the service-dominant logic (Vargo and Lusch, 2008), focusing customers as cocreators of value, but with a short-term focus in mind, Chairman & CEO decided to implement a cocreation program to improve customer value in use and reinforce loyalty (Ordanini and Parasunaman, 2011; Chesbrough, 2009; Ferràs, 2010) which was rooted in the new motto. Giving the tight competition, the short term objective was to increase corporate visibility as a way to gain customers, but also to recover some internal vitality in terms of employee motivation and collaboration and, as a result, to

increase productivity. Co-creation was inserted in the company's web page in a visible way to receive a high relevance. It was marketed accordingly. The program was theoretically based on the principles of dialogue, transparency, innovation, involvement, sustainability and responsibility which were stated in the marketing campaigns (Goula, 2009; La Vanguardia, 2010; Interactividad, 2009; Spanair, 2011).

#### 4.1.5 Key findings

Yet, at the time the co-creation program was promoted, the author acted as advisor for the company making some proposals for service improvements. The company's official web page was used for that. It was realized that the feedback questionnaire for writing suggestions/ proposals was not user friendly and no answers were received. Microblog of the Chairman had 4,926 followers as of January 2012, which is in estimation a considerable figure, but he only kept contact with 96 microbloggers. In total there were 475 registered tweets sent by him or forwarded from other accounts during the whole year. Number of suggestions received from customers in the co-creation program decreased significantly in 6 months, from 771 to less than 60 per month. Several customers wrote their complaints in blogs as they felt deceived after receiving a poor service quality (frequent flight delays; poor service in front office; baggage losts, etc.) while the company promoted such a visible co-creation campaign. The analysis based on these internet data together with the interview data and the other textual sources mentioned above revealed that the co-creation program was designed more as a marketing campaign to get short-term results rather than a real strategy for innovativeness to reinforce customer relationship and loyalty. The results obtained were the contrary to the intended ones. The company lost market share and the image deteriorated.

Some basic factors were identified as critical factors for failure or success: i) *appropriate culture* that fosters collaboration and cooperation (Laszlo, 1999); ii) *commitment to common goals*, shared by all employees, rooted in leadership by trust; iii) *appropriate and clear, renewed strategy, operationally deployed* through goals, clear allocation of responsibilities and efficient and user-friendly processes; iv) *multidirectional dialogue* between stakeholders and organization; v) *all channels* and consistent service at every 'moment of truth'.

The findings show how delicate matter trust is. It is fragile, intangible, relational asset and, hence, easily breakable. It is needed for co-operation between the company and stakeholders. Trust enables interaction and cooperation in knowledge sharing for stakeholders. As trust develops in reciprocal activity between individuals (customers and company representatives), and one party attempts to gain short term advantage, customers feel 'used' and dissatisfied. They perceive sharing their knowledge and time with the company only for the benefit of the company. It may be even worse, i.e., for the benefit of some individuals only. Consequently, the relationship and trust may become seriously deteriorated. The stronger the emotional bond is, that trust involves, the more fragile trust becomes in disappointment experiences and the lower customer dissatisfaction rate develops - let alone the consequences if trust breaches in customer relationships. Customers deserve trustworthy care. In highly competitive environments, no one company can afford to ignore that today. So managers should look at customers not just as consumers, but rather as employees and ambassadors (Lukosius, 2007).

#### 4.1.6 Conclusions and implications

In conclusion, trust is a fragile, relational asset, formed by a combination of rational and affective or emotional elements. Trust is an opportunity to create and reinforce loyal relationships. Sharing and co-operation requires trust and also a willingness to co-operate. When trust breaches, the effects are seen in several structures and processes both at the organizational and societal level. For managers the study implies that commitment, transparency, openly shared goals, clear strategy and its deployment are the basic requirements to build trust. They lead to sharing more knowledge and foster vitality and innovativeness. As the potential for obtaining knowledge from outside the company's boundaries has significantly increased, many firms are in the process of changing their innovation system. An emerging open innovation model would give leadership by trust increasing attention and relevance in research, literature and practice as enabler of co-operation, and a way to assuring vitality and innovativeness in organizations.

## 5. Summary and managerial implications of the case studies

The findings show the several ways of how trust supports innovativeness and vitality (well springs of renewal) in organizations. Trust plays an important role in intra and inter-organizational relationships. It strengthens human intellectual capacity by renewing competences and expertise. The paper has discussed an important

role that trustworthy leaders play in trust building and maintenance. In essence it means sharing knowledge openly and on the right time. The findings show that trust plays a major role in knowledge sharing, both between group members (engineering company) and between stakeholders (airline customers). Group dynamics and functioning relationships between individuals facilitate the sharing of knowledge. This was shown by the first case study which made leadership by trust practices visible as well as the second case study. The functioning relationships are very important because tacit knowledge is based on the individual's professional experience and is complicated to transform into explicit and be shared. Moreover, trustful workplace climate, which is characterized by open communication at the individual and group level (see Figure1), seems to be a critical organizational level factor affecting the sharing of tacit knowledge. This in turn strengthens vitality of HIC needed for the innovation activity.

The case study findings imply for leaders that openness and transparency of information are important for generating relational capital and developing intellectual human capital. Further, essential to leadership by trust is enabling, i.e., developing and maintaining work environments that nurture knowledge sharing and, hence, innovativeness. Open culture and trustful climate support functioning relationships and strengthen trust. Trust reinforces and creates loyal relationships with internal and external stakeholders. The practical implication for group leaders is to understand how important it is to develop communication skills and sustain relationships within the group, but also between other stakeholders. In daily leadership work, it is the small deeds that make a difference in leading by trust - not the great promises!

Finally, the main point of this paper is crystallized in the suggestion that the growth and development of human intellectual capital is of utmost importance in sustaining innovativeness and competitiveness in business organizations. For that managing knowledge, more specifically generating and sharing knowledge are the key activities and processes. The paper has made an empirical reference to the role trust and leadership play in these processes. Concluding by Hamel (2007: 97) "if the organization wants members to trust each other in all issues at the workplace nothing should be kept secret."

## References

- Atkinson, S. (2004) 'Senior management relationships and trust: an exploratory study', *Journal of Managerial Psychology*, vol. 19, no. 6, pp. 571-587.
- Becker, G. (1964) *Human Capital*, New York: Columbia University Press.
- Brown, S. (2001) 'Torment your customers (they'll love it)', *Harvard Business Review*, vol. 79, no. 9, pp. 82-88.
- Burke, C. S., Sims, D.E., Lazzara, E.H. and Salas, E. (2007) 'Trust in leadership: a multi-level review and integration', *The Leadership Quarterly*, vol. 18, pp. 606-632.
- Chesbrough, H. (2009) *The Path to Open Innovation*, Boston: Harvard Business Press.
- Chesbrough, H. (2011a) 'Bringing open innovation to services', *MIT Sloan Management Review*, vol. 52, no. 2, pp. 85-90.
- Chesbrough, H. (2011b) *Open Services Innovation. Rethinking your Business to Grow and Compete in a New Era*, NY: Wiley.
- Dermody, J. (1999) 'CPM/HEM models of information processing', in Kitche, P. (ed.), *Marketing Communications: Principles and Practices*, London: International Thomson Business Press.
- Deutsch, M. (1962) Cooperation and Trust: Some Theoretical Notes. Reprinted in: Landmark Papers on Trust. Vol I. (ed.) Bachmann, R. & Zaheer, A., UK: Edward Elgar, 2008: pp. 3-47.
- Dirks, K.T. (2006) 'Three fundamental questions regarding trust in leaders', in: Bachmann, R. and Zaheer, A. (ed.), *Handbook of Trust Research*, UK: Edward Elgar Publishing.
- Dirks, K. T. & Ferrin, D. L. (2002) 'Trust in Leadership: Meta-Analytic Findings and Implications for Research and Practice', *Journal of Applied Psychology*, vol. 87, no. 4, pp. 611-628.
- Dumay, J. (2012) 'The third stage of IC: towards a new IC future and beyond', *Journal of Intellectual Capital*, vol. 14, no. 1, pp. 5-9.
- Ebert, T.A.E. (2009) 'Facets of Trust in Relationships. A Literature Synthesis of Highly Ranked Trust Articles', *Journal of Business Management*, vol. 3, pp. 65-84.
- Edvinsson, L. & Malone, M. (1997) *Intellectual Capital: Realising Your Company's True Value by Finding its Hidden Roots*. NY: Harper Collins.
- Eggs, C. (2012) Trust Building in a virtual context: Case Study of a community of Practice, *The Electronic Journal of Knowledge Management*, vol. 10, no. 3, pp. 212-222.
- Ferràs, X. (2010) *Innovación 6.0. El fin de la estrategia*, Barcelona: Plataforma Editorial.
- Gillespie, N. and Mann, L. (2004) 'Transformational leadership and shared values: The building blocks of trust', *Journal of Managerial Psychology*, vol. 19, pp. 588-607.
- Goula, J. (2009) 'Y usted, ¿me aporta una idea?', *Suplemento Dinero, La Vanguardia*, 27 September, p. 14.
- Hamel, G. (2007) *The Future of Management*, Boston: Harvard Business Press.
- Häkkinen, H. and Savolainen, T. (2008) 'Trust in intra-organizational relationships: support to change', (Luottamus organisaation sisäisissä toimijasuhteissa: muutoksen tuki), *HR-forum*, Institute of Management, Finland, 25 April.

- Ikonen, M. and Savolainen, T. (2011) 'Trust in Work Relationships: a Solution for Overcoming Cultural Hindrances to Organizational Innovations?' *Conference Proceedings*. TIIM 2011 Int. Conference, Oulu, Finland, Savolainen, M., Kropsu-Vehkaperä, H. Aapaoja, A., Kinnunen, T. and Kess, P. (ed.), electronic publication
- Interactividad (2009) *Spanair. La co-creación significa que tú te busques la vida* [Online], Available: <http://www.interactividad.org/2009/07/29/spanair-la-co-creacion-significa-que-tu-te-busques-la-vida-kkspanair/> [10 July 2009].
- Kong, E. and Thomson, S. B. (2009) 'An intellectual capital perspective of human resource management. Improving transparency and internal management', *Public Management Review*, vol. 7, no. 2, pp. 289-303.
- Lazlo, G. (1999) 'Implementing a Quality Management Program. Three C's of Success: Commitment, Culture, Cost', *The Essence of Quality Management Anthology*, vol. 3, pp. 10-20.
- La Vanguardia (2010). 'Pon a volar tus ideas, nuevo espacio de co-creación de Spanair, La Vanguardia, 23 November [Online]. Available: <http://www.lavanguardia.com/economia/20101123/54073494052/pon-a-volar-tus-ideas-nuevo-espacio-de-co-creacion-de-spanair.html> [17 May 2011].
- Lewicki, R.J. and Bunker B.B. (1996) 'Developing and Maintaining Trust in Work Relationships', in Bachman, R. and Zaheer A. (ed.) *Landmark papers on Trust*, vol 2, pp. 388-413, UK: Edward Elgar Publishing.
- Lewicki, R., Tomlinson, E. and Gillespie, N. (2006) 'Models of Interpersonal Trust Development: Theoretical Approaches, Empirical Evidence and Future Directions', *Journal of Management*, vol. 32, pp. 991-1017.
- López-Fresno, P. and Fernández-González, F. (2002) 'Integrated Management in a Turbulent Environment', *Conference Proceedings*, 7<sup>th</sup> ICIT, Melbourne: Hong Kong Baptist University and RMIT.
- Lukosius, V. (2007) 'Creating Do-It-Yourself Customers: How Great Customer Experiences Build Great Companies', *Journal of Consumer Marketing*, vol. 24, no. 5, pp. 322-324.
- Martín-De Castro, G., Delgado-Verde, M., Navas-López, J. and López-Sáez, P. (2011) 'Towards an Intellectual Capital-Based View of the Firm', *Journal of Business Ethics*, vol. 98:4, pp. 649-662.
- McAllister, D. J. (1995) 'Affect -and cognition- based trust as foundations for interpersonal cooperation in organizations', *Academy of Management Review*, vol. 38, no. 1, pp. 24-59.
- McEvily, B., Perrone, V. and Zaheer, A. (2003) 'Trust as an Organizing Principle' *Organization Science*, vol. 14, no. 1, pp. 91-103.
- Mayer, R.C., Davis, J.H. and Schoorman, F.D. (1995) 'An Integrative Model of Organizational Trust', *Academy of Management Review*, vol. 20, no. 3, pp. 709-734.
- Myers, M.D. (2009) *Qualitative Research in Business & Management*, UK: Sage/Tromwell Press.
- Nahapiet, J. and Ghoshal, S. (1998) 'Social capital, intellectual capital and the organizational advantage', *Academy of Management Review*, vol. 23, no. 2, pp. 242-265.
- Nonaka, I. and Takeuchi, H. (1995). *The Knowledge-Creating Company. How Japanese Companies Create the Dynamics of Innovation*, NY: Oxford University Press.
- Nurmio, A. and Turkki, T. (2010) *Report Vibrant Finland* (Raportti Elinvoimainen Suomi). The Finnish Innovation Fund [Online]. Available: [www.sitra.fi](http://www.sitra.fi).
- Ordanini, A. and Parasuraman, A. (2011) 'Service innovation viewed through a service-dominant logic lens: a conceptual framework and empirical analysis', *Journal of Service Research*, vol. 14, no. 1, pp. 3-23.
- Probst, G and Raisch, S. (2005) 'Organizational crisis: The logic of failure', *Academy of Management Executive*, vol. 19, no. 1, pp. 90-105.
- Reychav, I and Sharkie, R. (2010) 'Trust: an antecedent to employee extra-role behavior', *Journal of Intellectual Capital*, vol. 11, no. 2, pp. 227-247.
- Roos, G. and Roos, J. (1998) 'Measuring Your Company's Intellectual Performance', *Long Range Planning*, vol. 30, no. 3, pp. 413-426.
- Rotter, J. (1967). A New Scale for the Measurement of Interpersonal Trust. Reprinted in: *Landmark Papers on Trust*. Vol I. (Ed.) Bachmann, R., Zaheer, A., Cheltenham, UK. Edward Elgar Publishing, 2008, pp. 48-62.
- Rousseau, D.M., Sitkin, S.B., Burt, R.S. and Camerer C. (1998) 'Not so different at all: a cross-discipline view of trust' *Academy of Management Review*, vol. 23, no. 3, pp. 393-404.
- Rubalcaba, L., Michel, S., Sundbo, J., Brown, S. and Reynoso, J. (2012) 'Shaping, organizing and rethinking service innovation: a multidimensional framework', *Journal of Service Management*, vol. 23, no. 5, pp. 696-715.
- Savolainen, T. (2008) 'Sharing tacit knowledge in a project-based organization: Perspective of Trust', in Kujala, J. and Iskanius, J. (ed.) *Research reports in Industrial Engineering and Management*, University of Oulu, Finland: Electronic Publication (CD), pp. 676-688.
- Savolainen, T. and Häkkinen, S. (2011) 'Trusted to Lead: Trustworthiness and its Impact on Leadership', *Technology Innovation Management Review* [Electronic], March Issue. Available: [www.osbr.ca](http://www.osbr.ca).
- Savolainen, T. (2011) 'Leadership by trust in renewing human intellectual capital' in Puusa, A. and Reijonen, H., (ed.), *Aineeton pääoma organisaation voimavarana, Finland*: Unipress.
- Schoorman F. D., Mayer R. C. and Davis J. H. (2007) 'An integrative model of organizational trust: Past, present, and future', *Academy of Management Review*, vol. 32, no. 2, pp. 344-354.
- Serenko, A., Bontis, N., Booker, L., Sadeddin, K. and Hardie, T. (2008) 'A Scientometric Analysis of Knowledge Management and Intellectual Capital Academic Literature (1994-2008)', *Journal of Knowledge Management*, vol. 14, no. 1, pp. 3-23.
- Slockum, J.W., Jackson S. and Hellriegel, D. (2008) *Competency-Based Management*, USA: Thompson. .

- Spanair (2011) *El making of" de co-creación* [Online]. Available::<http://www.youtube.com/watch?v=4D2oVP7mTx0>> [ 17 May 2011].
- Stewart, T. A. (1997) *Intellectual Capital: The New Wealth of Organisations*, London: Nicholas Brealey Publishing.
- Sullivan, P. (2000) *Value-Driven Intellectual Capital. How to Convert Intangible Corporate Assets into Market Value*, NY: Wiley & Sons.
- Teece, D. (1998) 'Capturing Value from Knowledge Assets: The New Economy, Markets for Know-How and Intangible Assets', *California Management Review*, vol 40, no 3.
- Vargo, S., Maglio, P. and Akaka, M. (2008) 'On value and value co-creation: a service systems and service logic perspective', *European Management Journal*, vol. 26, no. 3, pp. 145-52.
- Wright, P. and McMahan, G. (2011) 'Exploring human capital: putting 'human' back into strategic human resource management', *Human Resource Management Journal*, Vol. 21, no. 2, pp. 93-104.
- Yukl, G. (2010) *Leadership on Organizations*, 7<sup>th</sup> edition, UK: Pearson Education.
- Yin, R. (1994) *Case Study Research – Design and Methods*. 2<sup>nd</sup> edition, CA: Thousands Oaks, Sage Publ.