

Trust Barriers of the Small Business Development: A Socio-Deformed Economy Experience

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Abstract: This article reveals the problem of trust barriers of the small business development in a society with a low level of accumulated trust. We are analyzing the structure of the trust "zone" in the current Russian economy, its characteristic deformation and suggest the ways to overcome them. The trust barriers were discussed at the macro and micro levels. We offer the author's systematization of the causes for the major trust barriers and the most common effects. The trust path dependency of the small enterprise in the phase permissions of a local trust crisis is proposed.

Key words: Trust • Trust barrier • "zone" of trust • Trust path dependency of a small enterprise

INTRODUCTION

The modern evolution views on the trust as an economic category (Morgnen) [1] can be traced on the basis of the researchers and economists' points of view: R.Coase considers the trust as an opportunity to reduce the transaction costs and to maintain the effectiveness of internal firm organization [2]; K.Arrow interprets the trust as a peculiar lube of the public mechanism and goods that has an economic value and increases the efficiency of the overall system [3]; G.Becker associates the trust with the positive changes of human behavior, which is measured by the economic categories [4]; F.Fukuyama analyzes the trust as a mandatory component of accumulated social capital in a society based on the cultural and family values and work ethics [5]; M. Castells correlates the organizational configuration of inter-firm networks based on the family socialization level with the lines of mutual trust [6]; H. de Soto calls the trust as the principal condition for the effectiveness of market economy institutions [7]; S.Covey considers the factors and speed for archiving the effective results in the business based on the trust [8].

The practical value of ideas presented here is really important for the analysis of modern interpretation of "the trust" in the economy as a mandatory condition for the effective functioning of market economy at the macro and

micro levels (Zheng, Roehrich, Lewis) [9]; as a link in the hierarchy of society socialization and organizational schemes of business structures; the correlating basis of the achieved "trust" level with the accumulated social and cultural capital in the society (Cook, Schilke) [10].

Methods: The works of scientists studying the problem of "trust" in the economy at the macro and micro levels were the theoretical and methodological basis for this article. The authors have used the descriptive method, the systemic-functional approach, the general scientific methods of analysis and synthesis and the systematic principles.

In their interpretation of the trust problems the authors relied on the major categories of neoinstitutional theory, the terms of social capital, property rights, transaction costs, contracts. The positive approach of Economic theory to the identification of cause-effect relationship in the existence of trust barriers on the path development of small businesses in society social deformed was applied.

The modeling method gave us an opportunity to identify the possible trust path dependency for a small enterprise in the segmented trust zone. This method is based on determining the economic effect from implementation of trust-enhancing social, legal, organizational, institutional procedures at the particular

phase of the small enterprise development. A qualitative analysis of the simulation model allowed us to draw the constructive conclusions on prospect.

Main Body: Theoretically, there are two models of trust relationships at the macro-level of the economy – a two-component (small business – the State) and a three-component (small business - big business - the State). For the first one the "flat" network forms of industrial cooperation with the production in small batches and the immediate relationship between the producer and consumer, based on the individual (personified) trust correspond, for the second – the centralized accumulating role of the big business that has the mass production and the dominance of generalized (impersonify) trust. Based on this an effective relationship between the social and economic origins in the public trust shall be entered (Zak, Knack) [11].

In the society with a low level of trust, informal business relationships and the dominance of developed intragroup cultural and ethical standards of behavior and business doing, permanently a crisis of personal trust occurs as a trust barrier overcome in two organization models of the social and economic relations: 1) simulation of a large enterprise "that thinks by the family categories and is not adapted to the professional management, capital corporatization, separation of management and ownership functions and the impersonal hierarchical structure of corporation" [5]; 2) the interfirm networks that structure the "hierarchy of obligations along the lines of mutual trust" [6] in the sector of small social forms [12], in the leadership of human relations [13], the cluster community of small enterprises [14], the local region of interaction with the customers [15].

In the society with a high level of trust, based on the legal provisions and the Labor Contract, the trust barrier to formalize the relationship is overcome at a higher level of socialization and that requires "the replacement of trust relationships to the control institutions to ensure the stability." [5] In the Japanese production system, organized as a cooperation of multiscale enterprises with the familistic base, the trust barrier overcoming is based on the high level of impersonal trust between the management and workers [16] and is associated with the group solidarity [17].

In the analysis of real situations the perfect structure of the "trust zone" is multilayered and segmented according to the localization and the personalization of influence. The State adds to this the trust barrier of trust simulation through the monopolization, the self-sufficiency and the declaration of civil society

foundations, which leads to the loss of generalized trust. A possible alternative to this process is a diversified set of personal connections.

Causes and Effects of the Major Trust Barriers in a Society with a Low Level of Accumulated Trust: In the post-socialist economies the small business is developing in the social environment with a low accumulated social capital, due to the transformational recession [18], the unsustainable levels of socialization, the biased public and cultural values [5], the increased risks of optimal business doing, that require the control and direct costs [19].

The lack of trust at the macro level is created by: a) the administrative barriers, which accumulate the fragmentation of economic strategies of small firms in the image of action, concentrating at the "hotbeds of trust" [20] with the specific motivations: from nomenclature to ethnic; b) the institutional barriers, which subjectively treat the real institutional restrictions in the areas of the property rights support and the exchange operations, creating the unreasonably high load on the small business. As a result, a high (up to 70%) capital concentration at the largest shareholder predominates in the Russian Federation (the RF) and he does not trust his closest circle of partners; the outsourcing is not spread with the savings (from 5 to 15%) on purchases, personnel management, legal proceedings; the unproductive expenses for the property protection are approximately 6 billion dollars per year [21]; â) the social deformations, causing a lack of trust at the distorted scale of values, a selfish rejection of Business Ethics, all that has the side effects in the form of a deformed (not strategic) "reproduction" of a small business in relative unconnected between the socialization levels and the virtual absence of a layer of the small businesses related to the necessary social programs.

The existence of specified barriers forms a response in the view of a mutual mistrust in the interaction of society, business and the State. The studies of "Edelman Trust Barometer" showed that 41% of Russians trusted business in 2012, due to non matching the expectations of society in quality of products and services provided, the readiness to conduct a constructive dialogue with consumers, it did not implement the transparent business practices, did not provide a favorable working climate within the company [22]. In 2013, only 40% of the population of the RF trusted the business and only 36% trusted the Russian companies [23]. These data bind the consumer trust and with the quality of economic institutions [24].

Table 1: Causes and effects of the existence of trust barriers in a society with a low accumulated social capital

Causes	Effects
Fragmentariness of nationwide values Administrative resources as a consolidation instrument Corruptness as a norm of business ethics Law as an coercive leverage	Trust atomization: a) formal trust in response to the administrative pressure; b) areas of personified trust;
Breach of socialization levels Unconscientiousness as a business action and strategy Informality as the active principle of relationship Lack of cooperative and perspective thinking Enforcement and personification of costs as a necessity	Trust simulation: the institutions deformation basis; a) shrewd trust in the form of utilitarian closed business communication; b) generalized trust in the hierarchy and monopolization fetishization.
Deformed value scale Selfish rejection of business ethics Psycho-emotional unpreparedness of contacts	Trust asymmetry: a) absence of sufficient cultural basis of non-personified trust; b) limiting the radius and "chains" of trust by the personal contacts area; c) asymmetry of the of long-term trust interactions with the counterparties

Source: compiled by authors

Table 2: Trust path dependency of the small enterprise in phase permissions of a local trust crisis

Firm growth phases	Crisis phase transitions	Means to further develop	Achieved economic effect
1) start-up	Crisis of personal trust	Separating the functions of management and ownership	Adding value to the consumer
2) survival	Crisis of mutual trust	Conclusion of Employment Agreement	Sales and profits growth
3) success	Crisis of personified trust	Capital corporatization	Increase of shareholder value
4) ups	Crisis of impersonal trust	Involvement of professional management	Realization of innovations
5) maturity	Crisis of generalized trust	Creation of a competitive cooperation	Sustainable partnership and the best performance

Source: compiled by authors

The proposed correlation of causes and effects of trust barriers gives you the opportunity to judge the possibilities of their overcoming by the forces of public and state institutions (Table 1).

The Trust Concept in the Path Dependency for the Small Enterprise: The small enterprise acts in various roles required by the counterparties and uses the "shrewd trust", which is provided by the analysis of partner motivations and its high interest in the fulfilling its obligations in good faith. The shrewd trust is combined with the personal, leading to an objective "sewerage" of trust that is based on the long-term shared economic benefits with their resourcing. The priority "channels" of trust for the regional small business are: component suppliers, credit and financial institutions, territory-based Administration, regulatory Bodies [25].

The conquest of local trust by the small enterprise is represented here as the step by step procedure. The first step requires the proof of a long-term financial sustainability of the small enterprise and the consistency of its owner. The small business Practitioners (J. C. Lambden, D. Targett) give the maxim: "viability - trust - funding" [26]. The evidentiary criterion for the consumer is the continued presence of this small enterprise on a certain produce and/or territorial market, for the creditors – its perfect credit history. The second step is the market entry with the desired, quality or

innovative product, like the successful "hidden champions" of the market have (H. Simon) [27] and which is long-enjoying the confidence of consumers. The criterion is a steady demand for the goods of a recognizable brand. The third step – the accumulation of the volume of effective communication and innovation, which make the creative potential of the small enterprise steady and successful in the rapidly changing economic and social conditions (D. O’Connor, G. Jones) [28]. The criterion is the strict following the legally prescribed rules and procedures. As a result, such changes are taking place in the "external" environment of the small businesses that are able to create a positive reputation of trust based on the sustainable collective perception (E. Chang, T. Dillion, F. K. Hussain) [29] and the improvement of relations between the buyers and sellers. The "internal" environment requires a fine tuning on the trust element of employees [30].

As a result, a trust path dependency of the small enterprise on the basis of reciprocity and trust is formed on the micro level [31,32] with the involvement of growth model (L. Greiner) [33] as the motion with the crisis phase transitions between the extreme points of "balance" (atomization and association).

The crisis "barriers" discussed here by the authors can be overcome through the creation of new economic, legal and institutional conditions for the business development on a macro level (Table 2).

CONCLUSION

As a result, the "trust" as an actively formed, cultivated and used resource is becoming more psychologically, socially and economically profitable than its antipode. That allows the small business to build the relationships with the counterparties on the grant long-term basis; relieves it from the burden of unproductive transaction costs for control over the maintenance and execution of contracts and the property preservation; makes the organizational relations information symmetrical; decreases the negative sharpness of some market phenomena by reducing them to the productive adversarial relations.

The positive internal and external effects obtained from the use of "trust" phenomenon under the Russian conditions are nullified due to the difficulties of communication, the disrespect for the law and formal procedures, the subjective algorithms of resources obtaining, the disregard of ethical and social and cultural norms and the steady shady business practices. As an antipode occurs the following logical "chain reaction" of trust: "likeminded people - reputation - goods - producer." As a result, such "reaction" supported by the mutual trust gives a steady positive multiplicative effect in the community of small businesses using the trust development models.

Findings:

- In a society with a low level of accumulated social capital the small business is developing in conditions of trust barriers that are existing in the form of contradictory cause-effects relationships at the social and economic deformations on the macro and micro levels;
- The small enterprises are forced to resort to the tactic of "calculated benefits" from the presence of trust, based on the reciprocity, preliminary information and the adequate assessment of the specific situation;
- The procedure of gaining the trust of the counterparties in the small enterprise is reduced to the maxim "viability - trust – funding" that supports the functioning barrier-free environment;
- The development of small enterprise in the conditions of trust barriers passes in a path of their permits based on the trust maintaining in the direction towards the self-sustaining association of like-minded;

- Bridging the gap between the theoretical and actual rates of positive changes in the development of small business depends on the speed and the vector of trust restore by the main counterparties in the "external" environment.

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