

# Crisis as the Touchstone of Trust: The Story between the Enterprise and Banks

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## Abstract

*Much current work in social sciences seeks to understand the role and development of trust in the network of modern society. However, the development process of the trust remains unclear. To explore the dynamic process of crisis and trust, this paper primarily examines on the role that trust plays in the financial manager's network relation, and the influence of its interaction with the banks. This study focuses on a state-owned enterprise in Taiwan that suffered from financial crisis and downsizing. Systems thinking combined with narrative inquiry are adopted to investigate the dynamic change of relationship between the enterprise and banks before and after crisis. The findings show that trust becomes considerably important when an enterprise suffers from a financial crisis, and the relation between the enterprise and banks tends to change after the crisis. Finally, an integrative model for crisis and trust is proposed to improve Webb's model and contributes to interpret the dynamic relation of crisis and trust.*

Keyword: *Social Network, Trust, Crisis, Narrative Inquiry, Systems Thinking*

## 1. Introduction

Trust as an important resource for teamwork and cooperative behavior (Jones and George, 1998; Kramer, 1999; McAllister, 1995; Williams, 2001), has become more and more important for organizations in the network of modern society. However, trust seems inseparable from uncertainty and risk. There is a growing recognition of importance of trust in times of crisis and change (Mishra, 1996; Webb, 1996).

Despite organizations face various uncertainty everyday, they always bravely make

decisions that put them in risks, and hold some expectations for the future. Why do people dare to make decisions under circumstances full of uncertainty? It is partially because of the guarantee from the institutions, such as contracting, court arbitration, and the election system. These mechanisms that maintain the every party's relation of exchange have been economic-rationalism approach's claim (Williamson, 1975, 1985). Sociologists, however, believe that a mechanism embedded within social relationship has maintained social cooperation. It is trust what is also called "social capital" by Coleman (1990). Zucker (1986) argues that trust is necessary for society stability, and trust is the base for daily interactions. This reveals the sociologist's emphasis on the trust.

Many sociologists consider the trust to be important but concern less about how it is formed (Perrow, 1993). They think the trust derives from constant interaction and previous trusting (Dasgupta, 1988). However, how is the development process of the trust?

Creating trust is a problematic process and a broader research agenda is necessary to flesh out the dynamics of building trust (Clegg and Hardy, 1996). Accordingly, a sociological approach might conceptualize trust as a communicative, sense-making process, highlighting interpretative, communicative, sense-making activity (Berger and Luckmann 1967, Schutz 1970; Geertz 1973) which then transform into action (e.g. Collins, 1981). Such task might also be enriched by insights from narrative theory and discourse analysis (Clegg and Hardy, 1996).

In order to further understand the dynamics of trust building, this study adopted a new approach that combined narrative inquiry and systems thinking to explore into the relation between an enterprise and banks from the viewpoint of trust in financial markets. In generally, in the financial field, it is not easy to go deep into the network relation of corporate financial managers and the interaction between enterprises and banks. And, the interaction between and development for enterprises and banks, when financial crisis occurs to enterprises, is also rather difficult to explore. Fortunately, FSBC(alias) may serve as an ideal case for this study.

### *Background of the Case*

This case study focused on FSBC, a state-owned enterprise and the largest shipbuilder in Taiwan. FSBC was established in 1973 and has been one of "Ten Projects" of Taiwan in 1970s. Its business covers shipbuilding, warship building, and machinery manufacture. The sale is about USD 625 million with earnings of USD 50 million in 2006.

Under state-owned government, its steady system and personnel render the manager of FSBC easy to develop long-term strong-tied social network. It is commonly thought that state-owned enterprises won't reduce the staff and cut salary. In the late1990s, over production of ships caused ship prices to fall significantly and resulted in massive losses for FSBC. FSBC implemented a "Resurgence Plan" in 2001 against its severe financial crisis. Measures taken in the "Resurgence Plan" included a reduction of employees by 47% from

5240 to 2750 people and a salary cut by 35%. FSBC has turned from loss USD 95 million in 2001 to profit in 2002 and stayed profitable for five consecutive years, with earnings of USD 1 million in 2002, USD 16 million in 2003, USD 1 million in 2004, USD 27 million in 2005 and USD 50 million in 2006.

FCBS's Resurgence Plan was a tremendous impact to the cooperated banks. With government's assurance, why did some banks decide to tighten the money supply? And, why were some banks willing to undertake more risk to support FSBC? Factors such as network, social connections, institution, trust, risk, royalty and betrayal all appeared accompanied by the crisis even if it ended. How could they play their roles—all of these will be discussed in this study to examine on the role that trust plays in crisis.

### *Research Approach*

Beside systems thinking, this study adopts narrative inquiry that is one of qualitative research methods. Narrative inquiry is the process of gathering information for the purpose of research through storytelling. The researcher then writes a narrative of the experience. People's lives consist of live. Connelly and Clandinin (1990) note that, "Humans are storytelling organisms who, individually and collectively, lead storied lives. Thus, the study of narrative is the study of the ways humans experience the world." Narrative inquiry is a frame of reference, a way of reflecting during the entire inquiry process, and a research method (Moen, 2006).

For the case FSBC, its financial manager was the main storyteller and interviewee. The interview took overall 20 hours, 7 times, along with secondary data analysis and literature review to study the changes and context of the relation between FSBC and banks that had transactions before and after the Resurgence Plan. Data for the interview were all transformed, coded, re-coded; reflection note were kept during the interview. Besides, every year's balance of debts of those banks that had transactions with FSBC before and after the Resurgence Plan was analyzed and related people and events were collected. Literature review refers to the understanding about trust-related research to clarify relevant concepts.

Through narrative inquiry, the research texts were re-constructed as a story from the field texts of this study. In the research texts, we tried to draw the full picture that consists of research background, thinking process, study focus, the life stories of action taker, the cause and effect of events and the subsequent development.

The research texts were further interpreted into some causal loop diagrams in order to explain why the crisis served as the touchstone of the trust. Finally, an integrative model for crisis and trust is proposed to improve existed model (Webb, 1996) and contributes to interpret the dynamic relation of crisis and trust.

## 2. Research Texts

*“A friend in need is a friend indeed.” ~proverb~*

### *Unexpected Inspiration*

When I discussed the privatization of FSBC with financial manager Ms. Beauty, the telephone rang again. She turned to the phone.

This was the fifth phone call during our ten-minute talk. To tell the truth, I felt a little bit uneasy because of our intermittent discussion. Fortunately, there were some adorable pictures on the wall of her elegantly decorated room. I could appreciate them to kill time during the calls.

The office was not roomy, about 1,296 square feet. There was a decorative screen in the doorway. The desk faced inside, placed by the left wall, leaving an isle less than one meter, while other space was occupied by a set of sofa. Beside the window were cat gadgets. On the wall hung 5 traditional Chinese paintings painted by herself featuring birds and flowers, boldly and vividly colored with delicate wildness—this revealed her personality to some degree. She was petite, unmarried, and in shape though over fifty years old. She was a quick speaker, always talked loudly with laughter, and uttered systematically to show her brain was clear. She has learned Chinese painting and calligraphy for over twenty years, and once had her own solo exhibition. Her talkative, optimistic, versatile and social personality made everyone get along easily with her.

“Sorry but, a friend working in bank came from Taipei to visit customers. He invited me to eat out,” said Beauty, putting down the phone.

Because I was captivated by her painting, I delayed my answer. “It’s okay!” answered I. “Where were we?” asked Beauty. I recalled, but I’d finished what we were supposed to discuss. Not knowing how to respond, suddenly, I came up with the social network theory. “May I know how you interact with the banks?” asked I out of curiosity about their network relation, “you guys often hang out together?”

“Exactly! Sometimes when I go to Taipei to do some errands, I hang out with them for afternoon tea or a cup of coffee. In this circle, informal interactions, I mean, apart from the formal interaction or contact for business, are quite important.”

“Could you explain why they are important? How do you usually interact?” asked I for her previous point.

“Informal interactions make us know each other, help grow our intimacy, and we can thus exchange information. The financial market varies rapidly. That indirect information excluding what we need for business is sometimes helpful. We often gain these when we talk.”

“In our field, we encourage and help each other. They often invite me for some seminars and receptions, and introduce their friends to me. Similarly, I invite them to join some

ship-delivery ceremonies. After all, many people would like to know successive entrepreneurs like Douglas Hsu<sup>1</sup>. The ceremony would be a golden opportunity."

"Sometimes, my friends working in banks who would like to visit CSC would invite me. Because I'm quite familiar with the financial staff there, they may get extra intimacy from me; I can also understand what they usually do. Financial workers all have their own expertise and experiences, so communication is extremely important. I would join in these activities as possible as I can."

"So these dealings are mutually beneficial? I think this is kind of benefit exchange. I wonder that if these informal interactions will exist without these benefits."

"You can say it's kind of benefit exchange. Sometime, it's hard to distinguish. But I can be sure that these benefit exchanges are the results, instead of purposes, especially for more familiar friends. Take one of my friends for example. She always invites me to go abroad for sightseeing, and so do I."

It's near lunch time. I seized the chance, asking "Do you think trust exist between you and bank employees?"

"Sure!"

"Would that trust affect your business?"

"Exactly ! Why do some transactions between some banks and our companies relate to larger amount of money? For example, TBB has kept good relationship with us. Why? Because it didn't reduce our loan during the Resurgence Plan, on the other hand, it allowed us long-term loan."

To now, despite countless questions existing, ramping excitement reminded me that this would be an interesting start for research. When the bell rang; I could not but terminate our talk. I took my leave, and got her consent for next interview.

### *Where can I start for this research?*

Since I had made up my mind to focus on "trust," I began to collect papers and data pertaining to this issue. There were many data, but I had no idea where I can start my research.

In fact, for my research topics, I have my own criteria. I prefer those interesting, contributory, and, what's more, workable.

Before this interview, I got my interest in the issue "trust," but had no idea how I can start, who I can study on, how I can make the topic. There was a mess in my head that made me not know what to do.

But now I have calmed down. The unexpected interview with Beauty unexpectedly steered my research to start from risk and crisis.

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<sup>1</sup> Hsu is the CEO of Far Eastern Group in Taiwan.. Hsu always attends the ship-delivery ceremony himself.

Why did I start from risk and crisis? There were many articles about trust, as well as uncertainty or risk. Especially, I read Webb's<sup>2</sup> "Trust and Crisis" many years ago. It's quick for me to brush up, and I can learn more from that now.

Additionally, the talk with Manager Beauty was a reminiscent of one's story.

### *A Story about Trust*

This story has been told for a long time—a story about FSBC, starring Mr. Chang, the CEO of Evergreen Group.

He established his business and partnered with others. However, he failed twice. Thereafter, he preferred to invest solitarily for his business expanding.

In his early establishment of business, he once was confronted by financial crisis, and got helpless. Finally, it was Marubeni Corporation, a big corporation in Japan, gave him a hand. They have maintained good relationship since then.

Mitsubishi Group in Japan also helped Evergreen to solve some problems about one ship. Since then, thousands of billion of loan for hundreds of ships have been in the charge by Mitsubishi's shipbuilding factories and banks.

In early times, Evergreen followed the policy "Taiwan ships built by Taiwan shipbuilder" building ships in FSBC. However, they went to court for exchange rate problems, and never had dealings since then.

These stories revealed an entrepreneur's personality—separately clearly the gratitude and resentment.

### *Starting from Crisis*

How attractive Chang's story is! It was a pity that I got only the secondary data, and it was hard to get the direct data. Yet this story tells us the established relation between enterprises always starts from benefit exchange, and then is enhanced or weakened because of some triggering event.

However, the dealings between enterprises depend upon individuals, especially those key pivots, as what Burt called "structural hole". Therefore, further exploration into the person in the structural hole plus his interpersonal network and thinking will assist in understanding how the relation between enterprises grows.

Talking with Ms. Beauty, I realized that FSBC was an ideal case, which was a state-owned enterprise, protected and changeless with few leavers. It is helpful to the establishment of manager's social network. Its performance was unsteady, but no pledge was needed for the dealings of banks. Nevertheless, The Resurgence Plan on the end of 2000 broke the myth that state-owned enterprises never reduce the employees and alary, thereby changing the relation between FSBC and the banks.

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<sup>2</sup> Refer to the reference, Webb (1996), *Trust and Crisis*.

For this reason, I decided to study whether the trust between FSBC and the banks changed before and after the Resurgence Plan by using FSBS as a case. Would it be similar to what Webb described, or different?

#### *Dealings before and after the Resurgence Plan*

During previous interview, Ms. Beauty mentioned that some banks, which helped FSBC before the Resurgence Plan, maintained the dealings with FSBC amounted to larger sum. This triggered my desire to understand the dealings before and after FSBC's Resurgence Plan.

At first, I asked the information staff for assistance. They then searched the accounting system for the past-five-year statistical data of debit balance from the banks on the end of December every year. The requirement of FSBC's capital, mainly referring to short-term loan, can be divided into loan for material purchase ( LMA ) and general short-term financing(GSTF), both of which and the debit balance were reported statistically in order of amount. I also found that the amount of LMA was much larger than GSTF. I decided to figure it out.

The banks with loan for material purchase balance ranking in ten top were listed in order of year (shown as Table 1) to understand what banks had the most dealings:

Table1. Ten top banks with most annual balance of LMA

Rank	90	91	92	93	94
1	ICBC	TBB	TBB	TBB	CTB
2	TCBH	TCBH	CTB	BOTB	TBB
3	CTC	ICBC	TCBH	TCBH	ICBC
4	BOTA	ICB	CTC	CTC	TCBH
5	ICB	CTC	BOTB	ICBC	CTC
6	TBB	CTB	ICBC	TCBK	TCBK
7	TB	BOTB	TCBK	CTB	BOTB
8	CTB	CTBB	ICB	BOK	BOK
9	BOTB	BOTA	FEICB	SKB	TB
10	BOP	TB	BOP	CTCB	CFB

- TBB ranked 6<sup>th</sup> in 2001, climbing up to 1<sup>st</sup> in 2002, maintaining 1<sup>st</sup> till 2004, and went back to 2<sup>nd</sup> in 2005.
- ICBC ranked 1<sup>st</sup> in 2001, going back to 3<sup>rd</sup> in 2002, going further back to 6<sup>th</sup> in 2004, and climbed up to 2<sup>nd</sup> in 2005.
- TCBH ranked 2<sup>nd</sup> in 2001 and 2002, 3<sup>rd</sup> in 2003 and 2004, 4<sup>th</sup> in 2005.

With capitals before and after Resurgence Plan analyzed, it can be concluded that TBB, TCB have been the banks that had constant dealings, while ICBC, owned the most constant dealing before the Resurgence Plan, had its borrowings shrunk after the Resurgence Plan.

From Ms. Beauty's utterance about TBB's assistance, it is comprehensible that it has become the bank that has the most transactions. Yet I came up with another doubt—why did TBB

willingly give FSBC a hand when FSBC was in a financial crisis? Was there any other story? And why does TCB belong to the one of the bank having the most transactions? Why did ICBC start to fall behind the other banks on the ranking, and then it climbed up? My desire to know the details urged me to invite Ms. Beauty for next interview.

Apart from drafting some questions, prior to the interview, I surfed the internet for the banks that have many transactions with FSBC for their backgrounds and people in charge.

### *Unveiling the Mystery*

For next interview, I came to Ms. Beauty's office. She brewed her preferred Oriental Beauty Tea with her classical elegant tea cup. I was wondering if it was the tea, her skills, her tea set, or the atmosphere that made this tea the best-flavored I've ever tasted. She was pleased with my later compliment, and told me some knowledge about tea. We then started our interview relaxingly.

At first, I explained the capital and transactions before and after the Resurgence Plan to her, who was quite familiar with those things for her job. Her knowledge spared me from explaining too much. "Could you tell me that, if the settled accounts on the end of every year tell us about the dealings and relation between the enterprise and the banks?" asked I out of curiosity to know about the accuracy of the statistical data.

"It depends on your target. This data would be enough if you'd like to know which banks have the most constant dealings. In fact, this analyzed result is similar to the real situation."

Now I felt that I could follow my question more naturally. "Why is short term borrowings divided into LMP and general short term financing?" asked I.

"Shipbuilding industry has massive requirement for capitals, of which LMP dominates. So banks prefer this kind of business. Generally, companies would apply for a quota extent for loan for material purchase in the bank with foreign exchange business. What we call LMP refers to that, when we import marine equipments, after the supplier's shipment, the supplier will be given L/C by bank. The bank then sets our account and counts the interest in our overdraft account. Our company will pay back to the bank later; while general short term financing refers to single credit borrowing in NTD, mainly used for capital turnover."

In spite of her concise explanation, it was just as well that I was quite familiar with the purchase of shipbuilding industry, so I still understood what he said and why the shipbuilding needs more capitals. Shipbuilding relies upon purchase order. Every ship has to be designed upon the ship owner's needs. After the ship owner's order, detail designing, purchase and production will then be started. It takes over two years from contracting to completion, even five years. The lead time of shipbuilding is quite long. The ship owner orders the ship, which is often charged in USD. with installment. The contracting payment is pre-paid by only 10%, and 60~70% is paid upon ship complement. Therefore, shipyard always has to prepare large amount of cash turnover for material preparation, production and operation.

Ms. Beauty also mentioned banks like to conduct business about LMP. This made me curious. “Why do banks like to conduct business about LMP? What are the features of LMP and GSTF?”

“It is because that the material cost of shipbuilding amounts up to 60%. FSBC spends thousands of millions NTD on purchase, among which the import payment amounts to 50%. Every year, foreign exchange requires hundreds of millions USD, which is used frequently, with short term and large amount. This is considerably profitable for banks with rare risks, so they are pretty willing to do this. As to general short term financing, the need for this is much concerned with the financial situation of company. When shipyard’s financial situation is well, the need lessens. Because the amount of dealings is much, it depends on the bank’s risk assessment toward us if it is willing to borrow and the how much interest rate is.

Owing to the interest of LMP is mainly influenced by USD interest rate and the interest has market price, shipyard governs the advantageous side and the finance manager has the authority to distribute. When it comes to GSTF, the choice of the bank relies on the interest rate.”

After clarifying the related backgrounds and doubts about the capital dealings before and after the Resurgence Plan, I linked our discussion to the familiar banks. “From the analysis, I find that FSBC has maintained closer relationship with TBB and TCB. How come this happened?”

“Ok. Let’s talk about TBB first. It gave us a hand when we had the most serious financial problems. Compared with ICBC that tightened the money supply, that’s a big difference. So we gave TBB business opportunities as many as possible in return when our financial situation got better after the Resurgence Plan.”

“Why was TBB willing to help FSBC?” I couldn’t help but interrupted.

### *Savior in the Storm*

“We all have to thank Mr. Su, the General Manager of TBB then. FSBC almost went bankruptcy in 2001. As the Resurgence Plan indicated, the government promised to finance 3 billions NTD to support FSBC. This business had to be conducted by the banks. The conducting bank added additional 1 billion NTD to address FSBC’s requirement. At that time, both CTB and TBB intended to conduct the business, yet they reported us a high interest rate. Although TCB wanted to do that, but this great amount of loan would cause the squeezing effect to the existing extent, so they gave up. Meanwhile, I went to visit Mr. Su. As the General Manager, he was not only pleased to see me, but also very friendly and nice. I tried to explain FSBC’s faced problems and the support from the government. He then agreed to cut down the interest rate. So TBB was responsible for the loaning.”

“Why would he like to help FSBC? Were you familiar with him?”

“Not at all. I am not sure about why they would agree to help FSBC, but I think that’s

because of his experience and personality. He knows a lot about the operation of public organization and the government's situation. He believed that the government would try hard to support FSBC. Whatever, he trusted FSBC, and assisted FSBC. I committed I would reward them once FSBC got better. Thereafter when he transferred to TCB to be the chairman, we continued our thinking. So, TCB and FSBC have maintained a good relation for a long time.”

Since we were talking about TCB, I was curious about the fact that TCB had been the second most transactions with FSBC before the Resurgence Plan. “Did the good relation” asked I to link to previous topic, “between TCB and FSBC begin from Mr. Su?”

“No, we’ve maintained good relationship since long time ago I was a financial manager. At that time, the general manager was named Tsai. We have been familiar since he was the vice general manager in the CTB. He’s easy to get along, and we had frequent transactions. Therefore, this good relation had lasted until he transferred to the TCB to be the general manager.”

Time flied, the interview proceeded for two hours. It was often interrupted by phone calls, yet quite successful. I caught the chance to ask “Then why ICBC tightened the money supply? It dealt with FSBC’s employee salary transit. You are supposed to get along well.”

*Under the chestnut tree, I betrayed you; you betrayed me.<sup>3</sup>*

“ICBC absolutely pissed me off. It was supposed to have the most transactions with FSBC and best understand FSBC, but it was the least confident of FSBC. The first bank that tightened the money supply was ICBC, even earlier than foreign banks. You know what? FSBC once built eight warships, amounting to hundreds of million US dollars were processed by ICBC. They made a huge amount of money, but they dared to betray FSBC. So after the Resurgence Plan, we’ve tried not to use the LMP of ICBC. So now we have fewer transactions.”

“Why did they do that?” asked I with doubt.

“At first I wondered much about that, because their staff in Kaohsiung still supported FSBC. I realized the reason afterwards—the manager of the overseas branch changed. The extent of LMP was up to the overseas branch. The new manager persisted to tighten the money supply. It was known that he once was in charge of the transactions with Taiwan Metal & Mining Inc<sup>4</sup>. He had thought that state-owned enterprises would not go bankruptcy; the government would support them. Unexpectedly, it went bankruptcy. The government paid off all the loans for the banks but reduced 70 % of the loan for state-owned banks. Therefore, he believed

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<sup>3</sup> This is quoted from Orwell’s “1984.”

<sup>4</sup> In 1946, the government took over Taiwan Mining Corporation, founding up “Department of Preparation, Bureau of Gold & Copper Mine Taiwan.” Two years of re-establishment made the production of gold mine successful for the mine. In May 1948, it was reformed into “Bureau of Gold & Copper Mine Taiwan,” subordinate to National Resource Commission, MOEA. This state-owned enterprise closed its operation in 1987.

FSBC to go bankruptcy, and performed the risk control.”

Not knowing the story initially, I found it getting more interesting and felt like keeping listening. However, Ms. Beauty got something to do. I could not but leave after we made next appointment.

My arranged interview record served as some answers to my doubts, but some other questions emerged. I wondered what was the attitude of foreign bank and FSBC when encountering the crisis, and the criteria FSBC used to select the bank. A more complete picture required the clarification for thee questions. Consequently, I interviewed Ms. Beauty for a couple of times.

#### *Are foreign banks more realistic?*

Generally speaking, people consider foreign banks more realistic and lay less emphasis on the social relationship. Therefore, they are supposed to be less active if compared to native banks. Especially when it comes to corporate finance, the economic theory tells us that the organization’s decision making tends to be rational. To verify this idea, I asked Ms. Beauty: ”According to your experience of transactions with foreign banks, what’s difference between them and native banks about the establishment of social relation and interpersonal relationship?”

”They also emphasize much on the social relation and the management of relationship. They budget more for this stuff, and for critical things, for VIP, for specific objects and areas. They do things for specific purpose and look forward to successful transaction. However, the personnel and employment are unstable in foreign banks, so the workers have to accumulate their social relation and interpersonal relationship.”

”Would the unstable personnel and employment affect the relation between the bank and the enterprise?”

”Not really. Foreign banks have their reputation and professionalism with quality, clever, smart, and even good-looking employees. Also they got efficient training system, and hand over the job efficiently. For example, if someone leaves, the next will come soon.”

”When we mentioned about the Resurgence Plan last time, we talked about that the foreign banks tightened the money supply later than ICBC. Wouldn’t this be surprising? I thought they’re more realistic and emphasize risk control.”

”Foreign banks have their way assessing the risk control. Take the Resurgence Plan for example. City Bank cared much about the development of FSBC, and went further into it. At that time, I asked the responsible person of City Bank in Taiwan to visit Mr. Lin, Vice Chairman of State-owned Enterprise Commission (SEC), who explained the government’s strategy to City Bank. City Bank had full confidence of the government after understanding the situation, and decided to go on supporting FSBC. After Mr. Lin transferred to other workplace, the new successive Vice Chairman came from a foreign bank, and did not support

FSBC. After that, he observed some government's swinging policies and gradually lost his confidence, so he decided to tighten the money supply.”

#### *How to choose bank*

“May I ask your criteria for the transaction with the banks? Ms. Beauty?”

“First, the size and reputation of the bank. Basically, enterprises prefer those large-sized banks with good professionalism and good reputation. This would be low risk. Although the workers in small-sized banks always try to crawl to us, the size of the banks is still important. Likewise, it is vice versa.”

“Second, the social network. For example, actual performance was required for SKB to enter the foreign exchange market. So they were introduced by the officers of SEC to cooperate with TCB to begin the transaction with FSBC.”

“And the third is the interest rate. For business, the interest rate or the conditions are absolutely important. For instance, due to TAB’s small size and poor interest rate, even the support for the Resurgence Plan, we couldn’t but reimburse our borrowings after our financial problem was turning better. However, we deposited in return.”

“What’s more, it’s the service. The sales offer good service, greet us via telephones constantly, provide information and assist us with the problems. So we will buy their service when we need. Once there was a branch of BOT nearby, which had transactions with FSBC through social relation. One day there was an emergency, we were looking forward to their assistance on holidays, but the manager of the branch disregarded this. So I then turned to the registered office, and canceled the transaction with them.”

#### *After the Storm*

So far, I have obtained the whole context of the transactions with the banks before and after the Resurgence Plan. I found that those banks with fewer transactions are getting back, and those with more transactions are going far. How could this happen? I started my analysis from the data.

Analyzing the debit balance before and after the Resurgence Plan (Fig. 1), I’ve found that the amount of borrowings from TBB and TCB, both of which supported FSBC, became more after the Resurgence Plan. In spite of this, FSBC’s borrowings from these two banks was over 20% of the proportion of the whole purchase loan, but that of TBB gradually lessened to 10% in 2005. The proportion of ICBC started a downward plunge after the Resurgence Plan, from 20% in 2001 to 6.7% in 2003, but rising from 2004.

How could this happen? Does this mean that the reward in need will decrease as time goes by? To clarify this, I made an appointment with Ms. Beauty for the question: “Why did the proportion of TBB and TCB decrease?”

“Actually, we have maintained good relationship, but as we profit more and our financial

situation's getting better, there are more and more banks that want to have transactions with us. Secondly, the interest rate arises; we reduced the amount of borrowing gradually to lessen the interest. Last, to provide for a rainy day, we have to maintain good relationship in case of any aid from those large-sized banks with good reputation. For this reason, we curtailed the amount of borrowings from each bank."

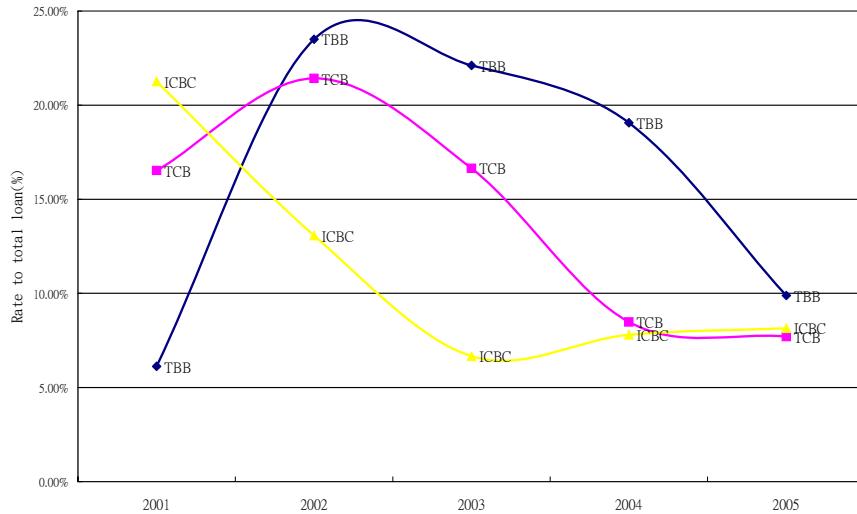


Fig.1: The change of amount for main banks' loan

### 3. Explanatory Model and Discussions

#### *Webb's Crisis and Trust Model*

Webb (1966) once gave a penetrating discourse for the relativity between trust and crisis. His logic is shown as Fig. 2.

First of all, a “triggering event” appears because of change in organization environment, which put individuals or organizations into predicament. In case the resources are sufficient to solve the predicament, the predicament is just a problem to be solved; otherwise, the crisis may appear. Under the circumstances of uncertainty and the requirement for resource adjustment, we increase our trust of others, and seek support from trustees. We will cognitively consider them loyal and expand our foundation and level of trust if they provide with predicted or unpredicted assistance or resources. On the contrary, we may consider them betrayer.

Viewing this case with the above logic will still leave the result of trust expansion or betrayal, and future evolution unexplainable. Therefore, the re-establishment of explanatory model is necessary.

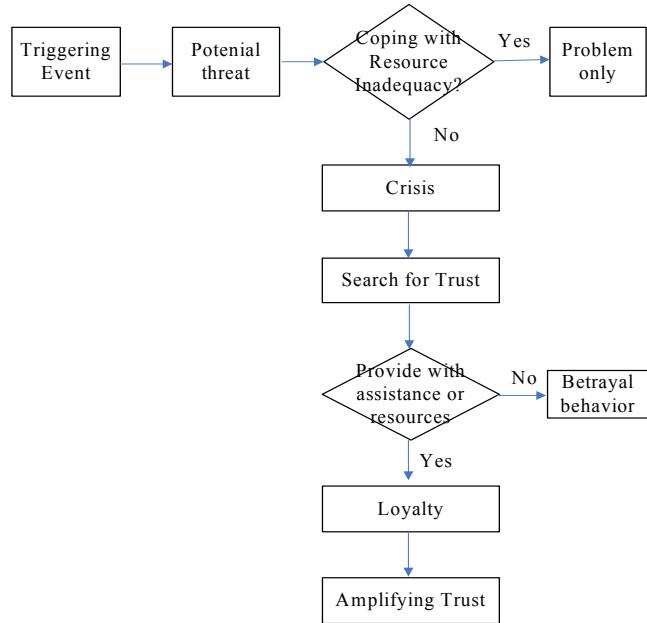


Fig .2: Webb's logic for Crisis and Trust

### *Crisis as touchstone*

In this case study, even the government committed to shift capitals to FSBC's Resurgence Plan, the support from banks was still needed. In other words, FSBC's insufficiency of capital that leaded to financial crisis meets Webb's definition of crisis. At this moment of crisis, FSBC searched for financial assistance from those trustworthy banks. Those banks had to decide whether to undertake the risk to support FSBC or not. They must have assessed the ability to undertake the risk. However, risk assessment can never be objective. Meanwhile, trust played an important role in decision making. Mutual trust was also tested by the crisis.

As the research texts mentioned, Marubeni Corporation decided to support Evergreen on account of trust Mr. Chang. This decision turned them to be business partners. Likewise, the reason why TBB supported FSBC may be due to their trust in FSBC or the government. ICBC 's decision to tighten the money supply was based upon the personal experience manager of overseas department—no longer trusting state-owned enterprises. The results present separately loyalty and betrayal to FSBC.

### *The Causal Loop of Loyalty and Reward*

The financial crisis urged FSBC to seek assistance from those banks that had many transactions in the past to obtain adequate capitals for the predicament. Though TCB was willing to give a hand, it excessive loans to FSBC along with additional loaning would cause squeezing effect on the capital. However, lack of additional assistance is not equivalent to betrayal. No tightening of the money supply will still prolong mutual maintained relation, which will even be intensified. Since the general manager of TBB recognized fully the

government's policy, he decided to trust and bail out FSBC when FSBC explained the benefits of the Resurgence Plan. This completed FSBC's progress of the Resurgence Plan. After FSBC was bailed out, to reward TBB , FSBC increased the foreign exchange debit credit that needed turnover for daily purchase for TBB. This reward, without doubt, reinforced mutual trust.

Therefore, we used the causal loop diagram to draw this process (Fig. 3), which consists of a negative loop and a positive loop. Negative loop represents an adjustment loop, which describes what the process of the crisis caused by resource inadequacy and relieved by the trustor's assistance among organizations are. This loop is named a loyalty loop. On the

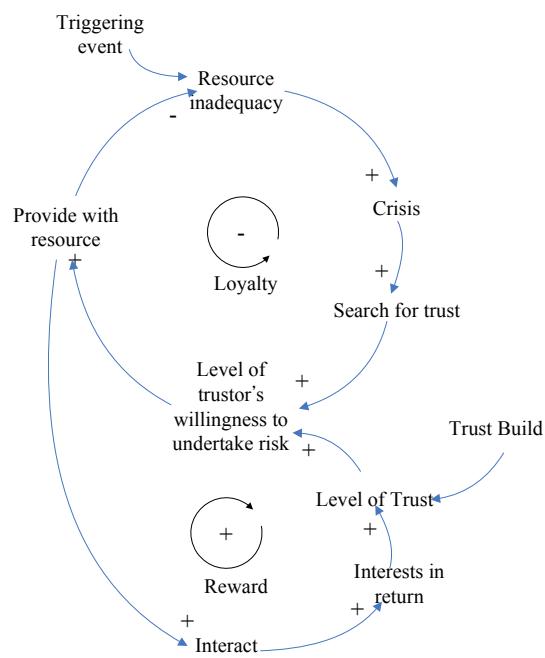


Fig 3 : The causal loop diagram of Loyalty and Reward

other hand, the positive loop refers to the growth loop, namely the assisted party, who rewards the loyal party with interests in return when the crisis disappears. This intensifies the level of mutual trust, increasing the level of the trustor's willingness to undertake the risk in the future. This loop is named a reward loop. The causal loop diagrams of loyalty and reward can draw the dynamic process of relation between FSBC and TBB.

## *The Causal Loop of Betrayal and Penalty*

Responded to FSBC' financial crisis, ICBC showed another case related to TBB. The bank that had the most transactions with FSBC in the past tightened the money supply unexpectedly, jeopardizing FSBC in the crisis. This deed is one kind of betrayal behavior. So FSBC, after being bailed out, decreased the debit credit significantly. This behavior of penalty showed that mutual trust and relation had changed.

Therefore, we use the causal loop diagram to draw this process (Fig. 4), which consists

of a positive loop and a negative loop. Positive loop represents a growth loop, which describes what the process of the crisis caused by resource inadequacy and intensified by the trustor's resource reducing among organizations are. It is named a betrayal loop. On the contrary, the negative loop refers to the adjustment loop, namely the assisted party, who penalizes the betrayer party with decreasing interests in return after the crisis disappears. This development weakens the level of mutual trust, decreasing the level of the trustor's willingness to undertake the risk in the future. This loop is named a penalty loop. The causal loop diagrams of betrayal and penalty can draw the dynamic process of relation between FSBC and ICBC.

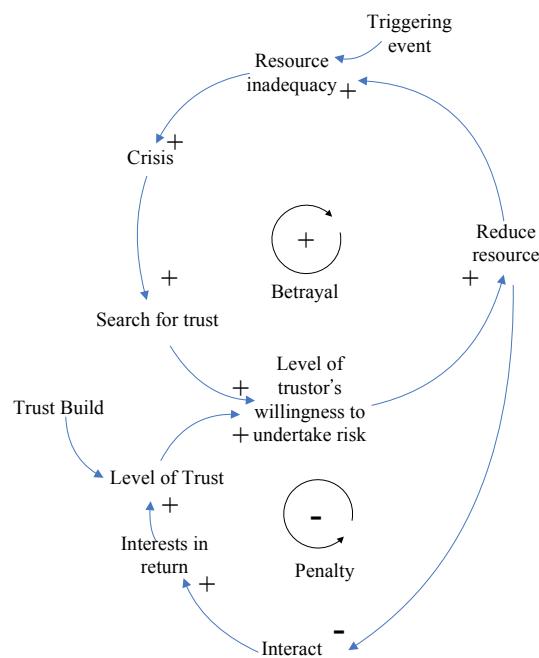


Fig 4 : The causal loop diagram of betrayal and Penalty

### *The Integrative Model of Crisis and Trust*

From the previous discussion we can know that, the level of trust among organizations determines the level for the trustor's willingness to undertake risk. The higher mutual trust is, the higher the trustor's willingness will be. This will also determine if it is loyalty policy or betrayal policy that the trustor will make.

We can also notice one phenomenon in FSBC's case that the effect of reward or penalty decreases as time goes by. As the crisis disappears, the assisted party will have diverse considerations when facing other situations. Like FSBC financial manager's explanation, the rising of interest rate will confront the party with the pressure of rising cost. Considering the future risk, the party must expand the relationship with more organizations. With financial problems conquered gradually, the number of banks that desire to have transactions with

FSBC increase. The resources will consequently require re-distribution, and the resource for rewarding then decrease.

Likewise, the new manager of the penalized bank, who faces business pressure, will zealously take remedial measures to exploit existing social network to rebuild mutual relationship. On the other hand, FSBC still needed to have transactions with large-sized banks with good reputation. This mutual dependence, risk consideration and the financial manager's personal awareness made the trust changed.

This story tells us that the business financial market itself is a social system. The trust between individuals and organizations refers to a dynamic process, which can be influenced by social contexts and never be long controlled by an individual.

Therefore, we have combined the two causal loop diagrams, Fig. 3 and 4, into Fig. 5 to develop an integrative model of trust and crisis.

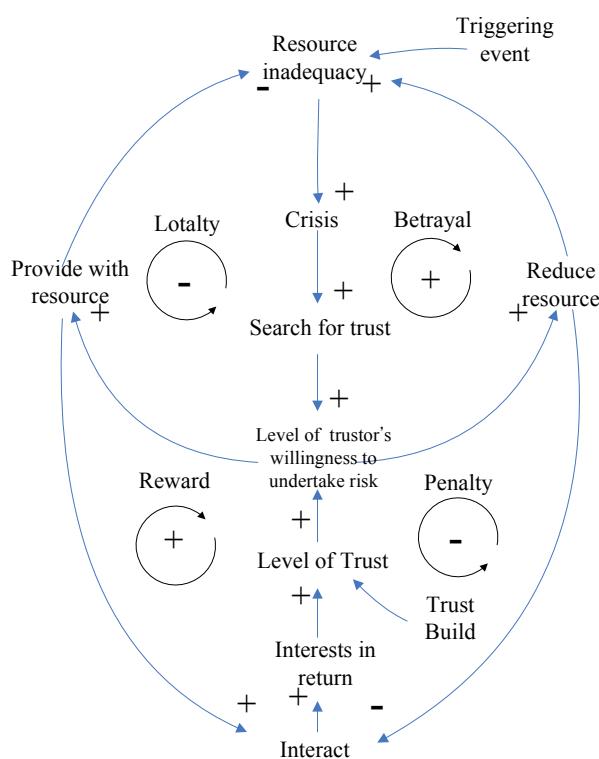


Fig.5 : The Integrative Model of Crisis and Trust

### *The source of Trust-building*

In the integrative model of crisis and trust, the level of trust can be changed by diversified source. The development of trust is of complexity, and varies with the difference in situation, human, and the time point. Although how to built trust is not the main issue of this study, I still review the past literatures to induce diversified viewpoints of trust.

1. Calculative-based trust: The trust derives the rational choice of the consideration of the cost or the profit (Lewicki and Bunker, 1995; Shapiro, Sheppard and Cheraskin, 1992).
  2. Knowledge-based trust: The trust increases as the transactions gets more and more, and

trust-related knowledge thus accumulates (Holmes, 1991; Lewicki and Bunker, 1995).

3. Personality-based trust: The trust forms in the childhood, for babies start their search and acceptance of the care taker's kindness (Bowlby, 1982; Erikson 1968), and become to trust others (Rotter, 1967).
4. Institution-based trust: The trust mirrors the sense of safety that comes from the assurance, safety net or other structural factors under some circumstances (Shapiro, 1987; Zucker, 1986).
5. Cognition-based trust: The trust relies on the swiftness, cognitive signals or the first impression (Brewer, 1981; Lewis and Weigert, 1985; Meyerson et al., 1996).
6. Risk-based trust: The trust and the risk are born from the same matrix (Das and Teng, 2004; McLain & Hackman, 1999). The existence of renders the trust necessary, and the venture is the concrete performance of the trust (Mayer et al., 1995; McAllister, 1995).

In this case study, it has found that the trust varies with the bank. The sources of the trust between TBB and FSBC may simultaneously embrace calculative-based, knowledge-based, personality-based, and institution-based trust.

#### **4. Conclusions**

The main component of this paper is to report a story between the enterprise and banks. From this story , we try a new research approach to explore the dynamic process of crisis and trust. This case study focuses on a Taiwan state-owned enterprise that suffered from a financial crisis and implemented a downsizing plan. Combining narrative inquiry and systems thinking, we try to demonstrate the financial manager's social network, the dynamic change of relationship and trust among organizations before and after the financial crisis.

People use narrative to communicate and understand people and events. Narrative has been described as a basic mode of thought (Hardy, 1968) and as a way of organizing knowledge (Bruner, 1986). Narrative inquiry contributes to research and professional development (Conle, 2000). This paper used narrative inquiry to re-construct the field texts to the research texts, which can draw the whole story and be re-interpreted for further research.

Webb's discourse of trust and crisis inspired us to further interpret the research texts. Through causal loop diagrams, one of systems thinking tools, we find two diagrams about the dynamic process of crisis and trust. One is about loyalty and reward, the other refers to betrayal and penalty. Crisis results from resources inadequacy. Crisis serves as a touchstone that tests the trust between the enterprise and banks. The after-crisis attitude and behavior of banks decide the loyalty and betrayal to the enterprise, which would take concrete countermeasure—reward or penalty—after the crisis. The trust between the enterprise and banks after the crisis may vary with varied situations and actors, weakening the behaviors for reward or penalty. Before and after the crisis, the trust between the enterprise and banks is a dynamic process. Finally, we propose an integrative model for crisis and trust to interpret the

whole process.

This study contributes to research method and simple theory improvement.

For research method, we combined narrative inquiry and systems thinking as our research approach. It's a new try but indeed helpful to understand the tacit complexity context of organizational phenomenon. "Narrative inquiry is a way of understanding experience. It is a collaboration between researcher and participants, over time, in a place or series of places, and in social interaction with milieus....Simply stated...narrative inquiry is stories lived and told" (Clandinin & Connelly, 2000, p. 20). "Once a story is created, it opens up new possibilities for understanding—a point nicely made by Stefinee Pinnegar: 'When a story is reinterpreted it becomes not just a new story but a new experience' (1996, 13)" (Bullough & Baughman, 1998, p. 487). Although, many analysts argue that the dynamics of complex problems cannot be fully understood unless they are modelled using quantitative techniques. There is growing support for the use of qualitative modelling, particularly in problems where 'soft' variables are involved. So, the "soft" issue is getting important in system dynamic modeling. Narrative inquiry combined with systems thinking tools will be helpful to an advance of soft issue inquiry and qualitative modelling.

Regarding to simple theory improvement, our integrative model for crisis and trust can explain the dynamic process of crisis and trust more than Webb's. Though Webb's model gives a penetrating discourse for the relativity between trust and crisis while crisis occurs, it can't explain the development after crisis. Through systems thinking tool, the feed back loops can be easy to find and to understand the dynamic process of crisis and trust. If we can further understand the dynamic process of trust and trust, it will go toward the trust building and maintaining within inter-organization.

This study also has some limitations. Limit with case study, the results and the proposed models should further verified and revised by more cases. One way to verify is to build model with system dynamics. This can be finished in the next stage.

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