Over the past decade, academics from a range of discipline areas have shown significant interest in trust. In the relationship marketing literature, trust has been recognised as an important construct for relationship success (Morgan and Hunt, 1994). However, trust research has extended beyond the relationship marketing literature, also appearing in economics, psychology, sociology and organisational behaviour literatures (Rousseau et al, 1998). Consequently, alternative views on trust have been posited and argued within an extensive range of contexts, some of which require deeper trusting behaviours than others. Recently, trust has been investigated as an emergent phenomenon (Nooteboom and Klos, 2001) through the application of an intelligent agent system. The objective of this paper is to develop a theoretical understanding of how trust emerges overtime in the context of on-going wealth management decision-making, with a view to advancing Nooteboom and Klos’s initial work. The theoretical arguments developed here will contribute to the design of an intelligent agent simulation to be tested within the CRM data of a major financial institution.

Wealth management decisions are high risk, complex and customers may not be able to assess the quality of the advice being provided (Seal, 1998; Stewart, 1998). However, a customer’s portfolio can be adjusted to address non-performance and/or changing customer wealth management needs. In this paper we present a dynamic conceptualisation of a consumers’ trust of a wealth management advisor (WMA). This conceptualisation incorporates an anticipated trust state that adjusts as a personal relationship develops, new information on the performance of the recommended wealth management portfolio is received, and the skills and knowledge of the consumer develop over time. The conclusions from the ensuing discussion will provide input to an agent based model designed to capture the emergent patterns of trust within an firm, and identify the relationship between those patterns and the development of trust within the WMA/customer relationship. Proxy measures will be identified from a major financial institution’s CRM datawarehouse. These measures will form the basis of the agent-based simulation, where co-evolutionary programming techniques will model the development of trust between the client and WMA through out their relationship. The trust conceptualisation below will follow the development of the WMA/customer relationship.

**Conceptualisations of Trust Prior to a Relationship**

**Dispositional trust** is defined as “the extent to which one displays a consistent tendency to be willing to depend generally on others across a broad spectrum of situations and persons” (McKnight, Cummings and Chervany, 1998, p. 477). In an earlier work by Mayer, Davis and Schoorman (1995) the notion of dispositional trust is communicated as the propensity to trust, which means a *natural inclination or inclination to do something* (http://dictionary.reference.com). A person’s background, personality type (Hofstede, 1980) and development experience (Tan and Sutherland, 2004) shape this disposition, and supports trust formation (Mayer, Davis and Schoorman, 1995). Those with a high disposition to trust have been found to generally be willing to place their trust in others even when they don’t have all the available information about the trustee (Rotter, 1980; Mayer, Davis and
Dispositional trust therefore provides the foundation propensity for wealth management customers to conceptualise trust in the pre-relationship stage. Thus, Proposition 1: Consumers’ willingness to trust in an WMA will be a function of their dispositional trust.

In conceptualising trust at a stage prior to client engagement with a WMA, we commence with Ganesan’s (1994) conceptualisation of trust as benevolence and credibility (Sirdeshmukh, Singh and Sabol, 2002; Smith and Barclay, 1997). Benevolence was defined by Ganesan (1994) as “the extent to which the retailer believes the vendor has intentions and motives beneficial to the retailer when new conditions arise (p. 3)”, while credibility was presented as “the extent to which the retailer believes that the vendor has the required expertise to perform the job effectively and reliably (p. 3)”. In a broad sense, benevolence is a “disposition to do good” (http://dictionary.reference.com), while integrity trust is an aligned construct, capturing the trustee adhering to a set of principles that the trustor finds acceptable (Mayer, Davis and Schoorman, 1995). Although aligned to the broad definition of benevolence, behaviour that reflects due consideration of the client’s best interests may or may not always reflect principles acceptable to the client. Furthermore, the literature has confirmed benevolence, credibility and integrity, as dimensions of cognitive trust (McAllister 1995; Cowles 1997). Both McAllister (1995) and Cowles (1997) highlight credibility as a significant cognitive dimension. Neither author deals with benevolence or integrity directly but they are referred too semantically through the phrases “…when one assumes without adequate evidence that the others behaviour will not confer unacceptable negative outcomes on him” (benevolence/integrity), and “well intentioned” (integrity) (Cowles, 1997, p. 279). In a wealth management context, benevolence of a WMA is essential to ensure that the portfolio is designed to meet the customer’s needs rather than maximise a WMA’s income through commissions (Higgins, 2002). Likewise, credibility is important to mitigate the risk of wealth management investments. Recent media focus on fee for service and commission based income for WMAs has caused consumers to question their integrity (Hoyle, 2005).

Institutional-based trust is defined as “one believes the needed conditions are in place to enable one to anticipate a successful outcome in an endeavour or aspect of one’s life” (McKnight and Chervany, 2001, p. 4). In Zucker’s (1986) seminal work, institutional based trust is tied to broad societal institutions, through individual and firm-specific attributes. Firstly, both individual and firm-specific, institutional trust are based on role expectations (eg. medical doctor, hospital, insurance company) or professional membership (Zucker, 1986; Williams, 2001). In the context of our study a consumer may trust an WMA because he/she is a certified financial planner (CFP), belongs to a professional society, with the expectation that they will provide a return on investment. Firm-specific institutional trust is also based on the social expectations of firm behaviour, membership sub-cultures (Zucker, 1986) and reputation (Lau and Lee, 1999). Consequently, a consumers trust may be influenced by the negative or positive reputation of a firm. Institutional and referral trust influence trust formation at the pre-relationship stage (a stage prior to engagement in business activity) (Mayer, Davis and Schoorman, 1995). A consumer will consider his/her institutional and referral trust knowledge and beliefs, and draw conclusions about the anticipated benevolence, credibility and integrity of a WMA. Thus, Proposition 2: Prior to meeting a WMA, consumer trust will be a function of anticipated WMA benevolence, credibility and integrity; and Proposition 3: Anticipated benevolence, credibility and integrity of a WMA are functions of a firm’s institutional trust.

An additional dimension of trust more recently identified in the literature, is search or referral trust (Lau and Lee, 1999; Verhoef, Franses and Hoekstra, 2002; Heffernan, 2004).
Consumers might not have had adequate experience with a firm (Verhoef, Franses and Hoekstra, 2002), making it difficult to evaluate the reliability of potential relationships (Gulgati and Gargiulo, 1999). In the context of financial investments, consumers may require affirmation of their willingness to place their trust in a firm, and there is empirical evidence to suggest that this occurs through recommendations and referrals (Gulgati and Gargiulo, 1999). From the perspective of the person making the recommendation, it has been found that when affective commitment, satisfaction, payment equity and brand loyalty exist, consumers will refer a firm to others (Verhoef, Franses and Hoekstra, 2002; Lau and Lee, 1999). Referral trust will influence anticipated credibility, benevolence and integrity, particularly at the pre-relationship stage of trust formation. Thus, Proposition: 4 Referral trust is a function of respected others’ perceptions of benevolence, credibility and integrity of an WMA.

**Conceptualisations of Trust within the Relationship**

In our conceptualisation of trust we have broken the pre-relationship stage into two phases. The anticipated cognitive trust stage occurs prior to direct contact between the WMA and a potential customer. Anticipated trust is based on assumptions. A potential customer may assume that an WMA would be benevolent and credible because of a friend’s referral, and/or a positive corporate image. Considerable market evidence confirms that wealth management advisors do not always act credibly, benevolently or with integrity (Hartnett and Travaglione, 2004). For example, the reputation of planners being credible has been weakened, with a number of surveys showing approximately 50% are inadequate for client needs (Hartnett and Travaglione, 2004) and media articles showing the difficulty in finding a capable/trustworthy planner (Hoyle, 2005; Kahler and Willmott, 2003). Planners ability to act benevolently has been questioned in the media as well, with debates over fee structure, in particular, incentives for offering certain product portfolios (Collett, 2004). In the first few interactions between the WMA and a customer, preconceptions of trust will be reinforced or refuted. Thus, the anticipated cognitive trust stage, i.e trust anticipated in a relationship prior to any engagement or transaction, moves into the second phase of the pre-relationship stage, the reinforced cognitive trust stage on the first meeting with the WMA. An individual will attempt to categorise another through either unit grouping (using themselves as a benchmark) or stereotyping (McKnight, Cummings and Chervany, 1998). If a person is categorised into a favourable group or stereotype then trust will be reinforced. A consumer’s trust will move from anticipated cognitive trust to reinforced cognitive trust, provided that positive categorisation occurs, with the resultant determination that the trustee is considered trustworthy (McKnight, Cummings and Chervany, 1998; Mayer, Davis and Schoorman, 1995). Reinforced cognitive trust occurs when the trustor realises through interaction that the trustee meets or exceeds their preconceived expectations. This reinforcement process is an initial assessment of a person’s trustworthiness. This process is not related to assessment of service but rather assessment of the individual through which the relationship with the firm will be mediated (Whitener et al, 1998; McKnight, Cummings and Chervany, 1998).

The process of categorisation is reflected in Kramer’s (1999) definition of category-based trust: “trust predicated on information regarding a trustee’s membership in a social or organisational category-information which, when salient, often unknowingly influences others’ judgements about their trustworthiness (p. 577).” Shared membership of a category will normally result in reinforced trust, because of the in-group bias of regarding one’s own group as honest, reliable, cooperative and trustworthy (Brewer, 1981). However, if ‘categorisation against self’ is not possible, then the trustor must determine if they belong to a
favourable group (McKnight, Cummings and Chervany, 1998) before trust can be reinforced. Trust will not always be reinforced on the basis of categorisation alone, but rather an individual will need to ‘prove’ that they are trustworthy (Mayer, Davis and Schoorman, 1995). Trustworthiness is closely related to the notion of being reliable or credible (Ganesan, 1994). An individual must not only be able to rely on the WMA to provide a return on investment close to what is promised/expected. But they must also be able to rely on the WMA to make benevolent decisions and to interact with them in the way they prefer (Cowles, 1997). The literature suggests an WMA that is perceived to have characteristics of ability, judgement, character and benevolence is likely to be considered trustworthy (Mayer, Davis and Schoorman, 1995). As the WMA and customer interact in the early stage of the relationship, the customer’s trust is reinforced as he/she makes assessments about these WMA characteristics, which leads to favourable categorisation (Kramer, 1999). It can be concluded that the customer’s categorisation process and the WMA’s demonstration of these characteristics work together moving the customer from anticipated cognitive trust to the next pre-relationship phase, reinforced cognitive trust. Thus, Proposition 5: During the initial WMA encounter, reinforced cognitive trust will develop from the impact of categorisation, likeability and an overall assessment of trustworthiness.

If reinforced cognitive trust is positive, the customer requires no further comparative options, and the timing of investment meets his/her wealth management requirements, a transaction is likely to occur. Following that transaction, the customer will evaluate the WMA’s performance against expectations formed at the initial interaction with the WMA. Kramer (1999) supports this notion when he argued that “...trust between two or more interdependent actors thickens or thins as a function of their cumulative interaction (p. 575).” Furthermore, he states “judgements about others’ trustworthiness are anchored, at least in part, on their a priori expectations about others’ behaviour (p. 576).” The information the customer obtains about the WMA’s performance through the interaction history allows inferences to be drawn about trustworthiness and future behaviour. Empirical work provides evidence of this link between patterns of interaction and changes in trust. For example, reciprocity in exchange relationships enhances trust, while the absence/violation of it erodes trust (Deutsch, 1958). After these early interactions four outcomes are possible: 1) expectations are not met and trust decreases (perhaps to the point of customer churn); 2) expectations are met and trust deepens; 3) expectations are not met, trust remains the same, and future expectations are adjusted or 4) expectations are exceeded and trust deepens. Thus, Proposition 6: The level of trust will change according to the interpretation of the expectation/performance relationship.

Not only does the level of trust change through the interaction experience but also subsequent expectations of performance are changed. These anticipated expectations are validated or discredited through experience in the relationship (Kramer, 1999). For example, a customer who expected a return of 15% but experienced an 8% return would adjust his/her expected return in future time frames. If the WMA was able to provide credible argument as to why, in the short term, returns had not achieved those expected, then performance expectations would be adjusted and trust would remain the same. Where performance explanations were perceived as not credible, future performance expectations would be adjusted, and trust would decrease. If performance was below expectation and trust decreased, customer churn is possible (for a review on the performance/expectation relationship see Johnson, Anderson and Fornell, 1995; Van Montfort, Masurel and Van Rijn, 2000). Therefore, “interactional histories become a basis for initially calibrating and then updating trust-related expectations (Kramer, 1999, p. 576).” Thus, Proposition 7: The level of trust changed by interpretation of the expectation/performance relationship will affect subsequent performance expectations.
As the customer interacts with the WMA, his/her knowledge about investing and making wealth management decisions is likely to increase. With increased knowledge, it is argued that, incrementally, a customer may claim increasing ownership of wealth management decisions, and hence, trust in the WMA will not continue to play as significant a role in the decision process compared with prior decisions. In response to this strategy, two outcomes are possible: 1) the customer’s decisions exceed expectations, reinforcing trust in his/her own ability and reducing reliance on trust in the WMA (performance adjusted trust); 2) the customer’s choices do not perform well, doubt that his/her knowledge and skill levels are adequate, and WMA trust increasingly contributes to portfolio decisions. At the same time, the WMA’s knowledge and skills are increasing and the WMA is able to make increasingly credible decisions on the customer’s portfolio. The literature confirms that increasing knowledge and relationship skills leads to successful relationships (Day, 2000), however this aspect falls outside the realms of this research. Thus, Proposition 8: As customer knowledge of wealth management increases there will be a decreasing influence of WMA trust on portfolio decisions, and a modification of the role of future WMA trust in wealth management decisions as a result of the interpretation of the expectation/performance relationship.

As technology changes in the wealth management industry potential clients will be able to access a wide range of personalised financial planning tools on-line (Sweeney and Morrison, 2004). Waite and Harrison (2002) found that customers making financial decisions often search for additional information because of the perceived risks. In the absence of word of mouth communication, the Internet is a good provider of such information because it is simple to access, reduces search time/effort, giving the consumer greater control over the information they acquire (Waite and Harrison, 2002). Furthermore, it has been found that these characteristics improve the quality of decision making over time (Ariely, 2000). Thus, Proposition 9: In addition to increasing consumer wealth management knowledge, the emergence of other drivers of trust reduction such as negotiated non-performance penalties, WMA league tables, sophisticated on-line analytical tools, real-time monitoring and portfolio adjustment options will modify reinforced trust and/or the emergence of relational trust (ongoing WMA/customer trust). The interrelationships in the propositions above are graphically presented in Figure 1.
Figure 1: WMA/Customer Trust Development Cycle
References


