Cambridge University Press
978-1-107-02387-1 - Public Trust in Business
Edited by Jared D. Harris, Brian T. Moriarty and Andrew C. Wicks
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1 Public trust in business: what's the problem and why does it matter?

Andrew C. Wicks, Brian T. Moriarty,
Jared D. Harris

EXECUTIVE SUMMARY

THE SITUATION

Survey data indicates that low public trust in business is an enduring phenomenon, but does not illuminate the underlying causes of this reality. While significant academic research has been done in the areas of interpersonal and interorganizational trust, little has been done in the area of public trust in business. This makes it difficult for business leaders to truly understand the problems posed by a lack of public trust and creates hurdles for their efforts to build and maintain public trust.

KEY QUESTIONS

What do business leaders know about building public trust in their companies? What don't they know and how might that be important for their particular business? What factors play a role in low levels of public trust in business? Why does trust matter to companies? What are the core dynamics of trust in business?

NEW KNOWLEDGE

Public trust in business is a highly complex phenomenon that is impacted by social and technological change. Low trust in business is not the result of a single factor, but rather emerges from the interaction of multiple causes. Some aspects of what shapes public trust in business seem fairly constant and stable over time (e.g., suspicion of large institutions) other dimensions seem more contextual and fluid (e.g., the rise of the internet, information sharing, and the decrease in direct human interaction as a part of business).

Trust matters deeply to business. Public trust impacts reputation, business performance, valuation, and the regulatory environment.

While public trust is complex, understanding the three core dynamics of trust can provide business leaders with a useful framework for managing stakeholder relationships.

KEY LESSONS

Understanding the relationships of the various drivers of trust is critical for business leaders seeking to build and maintain trust. Building and maintaining healthy levels of public trust in business is an undertaking that should be the joint venture of business leaders, scholars, government officials, and other stakeholders in the institution of business.

Business is a human institution – at its core it is about people working together to create value that no one of us could create on our own. In this context business has much to learn from research in social science and the humanities.

What happens inside organizations impacts the larger social environment (and vice versa).

INTRODUCTION

Distrust of the institution of business is not new; declining trust in business predates the current crisis,[1] and has long hovered between 10 percent and 20 percent.[2] Nevertheless the already dismally low levels of institutional trust have declined over the years it has been measured,[3] and the recent Occupy movement demonstrates its relevance as a building crisis for business; trust in business, though historically always low, has declined sharply. But what does this tell us, and why does this matter? The crisis of trust in business presents an opportunity to better understand the phenomenon of trust in business as an institution, where it comes from, and what can be done about it.

[1] Bolton *et al.*, 2009. [2] Gallup, 2011. [3] Van de Ven and Ring, 2006.

Low trust in business appears to be an enduring phenomenon. While measures of trust in business have experienced dips during times of economic crisis, they have not exhibited significant rebounds during economic boons. The high watermark for business in the already mentioned Gallup survey is 25 percent, achieved in 1990 and 2001. Measures of trust in other professions – such as nurses and firefighters who typically score above 80 percent in the same survey – suggest such gains are marginal.

While significant academic research has been completed in the areas of interpersonal and interorganizational trust, there is a dearth of research in the area of public trust in business. This knowledge gap makes it difficult for business leaders seeking to build and maintain public trust to do so effectively.

As Anne Mulcahy, former Chairperson of the Board and Chief Executive Officer of Xerox, wrote in 2009: "Current knowledge gaps in the dynamics of public trust . . . present serious challenges to leaders concerned with developing and implementing an effective long-term strategy for building mutuality and public trust."[4] Specifically, business leaders may find it difficult to answer questions about: how public trust in business impacts their company; what effects low levels of trust have upon regulators; which trust drivers are most effective with different stakeholder groups; which business outcomes derive from various types of trust; and how organizations should measure public trust. In a world where scandals and financial crises occur with some regularity, it becomes vital to have an understanding of the role of trust in markets – and the extent to which public trust is critical to the healthy function of markets.

In the face of scandals and crises, governments and stakeholders often call for more regulation to rebuild public trust. To what extent does this work, and allow us to rebuild trust in business? To what extent does such regulation reveal and enshrine a lack of trust and constrain the proper function of markets? We all have a stake in the

[4] Mulcahy, 2009.

answers to these questions – and we need a deeper understanding of public trust in business to answer them.

Currently, scholars have little insight to offer business leaders with respect to such questions, which is why there is such a need for the kind of new research found in this volume. The problem of public trust in business is a tangled knot that calls for joint efforts among scholars, business leaders, regulators, and other stakeholders affected by public trust in business. Together, we must build a robust understanding of public trust in business – how it works, how it can be altered, and what can be done to foster healthy levels of it.

THE NATURE OF THE PROBLEM – A KNOT OF KNOTS

It is important to recognize the extremely complex nature of the problem of public trust in business. Knowing that trust in business is low is akin to measuring an elevated body temperature. Without further knowledge of secondary symptoms and underlying causes, proper diagnosis and effective treatment eludes us. Our current efforts to (re)build public trust may resemble the efforts of doctors during the Middle Ages who used leaches and bleedings to "heal" sick patients – the best wisdom of the time, but practices that not only didn't help, but also often exacerbated the patient's condition.

We should begin with basics. As Russell Hardin has noted, trust is at minimum a three-part relationship that focuses on expectations of future behavior. For example, A trusts B to do C. But as Hardin has also indicated, these trust relationships exist within various social environments that influence the relationship – e.g., A trusts B to do C in context D.[5] This provides a common reference point for thinking about trust and how it functions in a social context.

While the basic structure of trust relationships in business have not altered that much over time, the contexts in which these relationships exist have experienced tremendous and continual change, particularly over the last three decades. Numerous sources

5 Hardin, 2004.

note the rapid pace of globalization and its widespread effects on the structure of business and society. Combined with the spread of the internet and its increasingly ubiquitous role in our everyday life, the world has never been smaller or more interconnected. People can now talk and interact with people (and businesses) all over the world almost instantaneously and at virtually no cost.

While globalization has brought many benefits – easy access to more goods, services, and people at relatively low cost – it has also generated many unpopular effects. The growth of globalization has led to "outsourcing" (particularly unpopular in more developed economies which tend to see a decrease in jobs due to outsourcing), it has been associated with a growth in income inequality, and it has fostered outrage on the part of a variety stakeholder groups.

One of the more striking recent social movements is the "Occupy Wall Street" (Occupy) protest, which began in New York in September 2011 and quickly expanded into a global movement. Although the protest grew to encompass an expansive variety of issues and vague demands, it struck some common themes reflecting a deep dissatisfaction with modern capitalism: growing wealth inequality, corporate influence on democracy, business corruption, and lack of accountability – particularly in the financial services sector.[6] And even though the movement has been controversial – it has been lauded by some (e.g., *Time Magazine*'s person of the year: the protester)[7] and derided by others (e.g., Ovide, in his *Wall Street Journal* article from October 2011) – nearly three-quarters of American citizens see the Occupy movement as having a legitimate point.[8] For better or worse, this populist movement draws attention to an underlying crisis of trust in business as an institution.

Another notable trend that is met with anxiety by some members of the public is the increasing concentration of wealth within companies. In 1996, according to a report from the Institute for Policy Studies, for the first time in history, more than half of the

[6] Apps, 2011. [7] Andersen, 2011. [8] Becker, 2011.

world's 100 largest economies were companies, not nations.[9] The authors determined the relative magnitude of economies by comparing corporate sales figures with GDP.

On January 12, 2010, as the global economy was continuing to recover, the Haitian earthquake hit, resulting in thousands of deaths and mass destruction. Two weeks later, Goldman Sachs announced its bonus pool. Shortly thereafter, the headline "GDP of Haiti: $8.5 billion. Goldman Sachs bonus pool: $20 billion," went viral on the internet. A statement from the National Council of Churches remarking on the disparate concentration of wealth between this company and country noted that "The earthquake devastation in Haiti creates a painful context for news that Goldman Sachs has approved a bonus pool of $20 billion."[10] The implication is that some stakeholders view business as a game rigged in favor of the powerful. Views of business as being about making the rich richer, question basic fairness and undercut public trust in business.

The computing and communications revolutions offer additional challenges for building and maintaining public trust. Business interactions become less personal and driven more by indirect forms of interaction. More and more of our interaction in organizations (and within society) is done via email, text, tweet, and other social media. While there are distinct advantages to this development, there are also decided costs – particularly in terms of the richness and context of our interactions, which in turn, impacts the dynamics of trust. A decrease in the richness of contact leaves people with less information from which to understand core messages, interpret motivations, and appreciate the importance of the communication – all of which can invite distrust or at least erode the potential for building trust through communication. This is true for all organizations, which may explain why the US Postal Service is listed repeatedly by Americans as the most trusted federal agency in the Ponemon Institute's annual survey.[11] Most members of the public

[9] Anderson and Cavanagh, 2000. [10] Jenks, 2010. [11] Ponemon, 2010.

have regular, personal interactions with their mail carrier, which is not the case with employees of other agencies.

At the same time, the ability to reach a vast array of individuals and groups all over a country or the globe may open up new possibilities for building relationships and fostering trust. One of the things the Obama administration is noted for is their use of social media and the internet to contact potential voters and use these points of contact to build a connection with their audience – which, in turn, may have substantially impacted voter turnout and voter preferences.

Government regulators attempt to keep up with changes in practice which they deem related to negative social impacts. Most often the stimulus for new regulatory action arises in the form of a business scandal or series of scandals that has damaged public confidence in some area of business. For example, Sarbanes–Oxley legislation was written and passed on the heels of the Enron and WorldCom scandals. However, as Larry D. Thompson, the former Deputy Attorney General who led the Enron investigation famously said, "Regulations expand with each ensuing scandal to encompass every possible abuse . . . except for the next one."[12] Regulation is expensive and reactive by its very nature, even as it may be essential to maintain healthy institutions. The key is discerning when regulation is needed and useful and when it becomes excessive and value destroying.

As the Sarbanes–Oxley legislation illustrates, a critical part of our framework for evaluating regulation may be not only the costs and benefits one can measure from the specifics of the policies – but the intangible impacts of such new laws on public trust. Sarbanes–Oxley may impose massive new costs and responsibilities onto companies – some of which make little sense or have unintended negative consequences – but was it a necessary step by the government to restore confidence in markets? Had we not passed Sarbanes–Oxley (or something like it) would public trust in business

[12] Thompson, 2003.

have eroded further and possibly led to even worse consequences for both business and society?

Keeping up with the pace of change is not only difficult for regulators, it is also a tremendous challenge for business leaders. Many business leaders may feel helpless in the face of new scandals and the threat of new regulations. When business leaders are not part of the companies or industries where scandals take place, they have no direct involvement in the events that erode trust. Yet business leaders are keenly aware that they are impacted by what happens around them and the corresponding loss in public trust.[13] Such changes may have a direct and substantial impact on your business and your ability to lead effectively. The question then becomes, what can I do as a business leader – both to protect and preserve trust in my business and to help rebuild public trust in business?

The problem of public trust in business appears to be a complex knot consisting of various knots and threads that reflect an environment of dynamic change. Business leaders and policy makers seeking to build public trust in business may be best served by approaches that are correspondingly multifaceted.

PUBLIC TRUST MATTERS TO BUSINESS

From the perspective of business leaders, declining trust in business constitutes a top concern.[14] Executives may worry that public displeasure may result in increased government regulation, a decline in customer confidence and corresponding sales, or even a "brain drain" of more top college graduates choosing a future outside the corporate world. No doubt executives desire social acceptability and admiration, and would be happier if business were regarded as more noble and appreciated, rather than as a kind of "dirty work."[15] Business leaders may wish to avoid negative press coverage, out of concern

[13] Bolton *et al.*, 2009, 6.
[14] Business Roundtable Institute for Corporate Ethics, 2004.
[15] See Ashforth and Kreiner, 1999; Hughes, 1958.

that negative media accounts will encourage more regulation; a concern that appears to be well founded.[16]

A broader perspective suggests the importance of public trust in the institution of business, as well. Given the legal embracing of corporate "personhood" in the United States and the corresponding ability to directly donate to domestic political campaigns,[17] public trust in business is more closely related than ever to larger issues of trust in broad societal institutions.[18] Business has an increasingly large influence on public policy, social welfare, and public goods – relationships that may be exaggerated in the developing world, where multinationals are often the most robust institutions.[19]

The importance of the issue therefore requires us to seek a better understanding of how perceptions of business as an institution are formed. For instance, despite widespread concern about the health of the global economy and high unemployment across the globe,[20] the crisis of trust in business appears to be particularly concerned with ethics, business integrity, and corporate responsibility, rather than with business efficiency or economic viability.[21] If true, this may suggest that business entities should be as concerned about their reputations for integrity and accountability as they are about their ability to add more employees to the payroll.

The fact is, reputation has never been of greater importance to companies. For example, John Gerzema and Edward Lebar Prahalad contend that the approximate percentage of company value attributable to intangibles had increased from just over 30 percent in the 1950s to approximately 62 percent by 2008.[22] According to Interbrand's 2011 survey, the total value of the top 100 global brands is roughly $1.25 trillion, with Coca-Cola alone valued at $71.8 billion. The majority of these valuations are tied to reputation and trust – things that do not show up on balance sheets.

[16] Cavazos and Rutherford, 2011. [17] Toobin, 2012.
[18] Brossard, 1996; Fukuyama, 1995. [19] Hargrave, 2009.
[20] *Economist*, 2012. [21] Porter, 2012. [22] Gerzema and Lebar, 2008.

Chief executives and directors responding to an Economist Intelligence Unit Survey listed "events that undermine public trust in your products or brand" as the single most significant threat to a company's global business operations.[23] Similarly, a 2011 report from Deloitte identifies reputational risk as a meta risk that is "an even greater hazard to organizational survival than a financial restatement or problematical findings in a compliance report."[24] The widespread availability to the general public of inexpensive communications channels that have a global reach not only gives brands a reality beyond firsthand experience, but also makes brands more vulnerable to public scrutiny of company actions. BP, for example, lost $74 billion (or 40 percent) of their market cap in the first six weeks after the Gulf of Mexico oil spill.[25]

While the balance of power between companies, interest groups, and the broader public continues to evolve, there are other key areas of concern for executives trying to manage risks associated with corporate reputation. As Charles Fombrum and Violina Rindova have indicated, "a firm's relative standing . . . internally with employees" is also an important contributor to a company's reputation.[26] Research suggests that many companies are some ways from maximizing the engagement of their employees. For example, one survey of employees found that only 10 percent of workers believe their senior leaders treat employees as key assets.[27] While we know that employee assessments have an impact on the reputation of their particular firms, we do not know how – or even if – this impacts the broader issue of public trust in business. Focus on executive compensation as a key reason for public distrust in business, however, indicates a potential connection between workplace experience and public trust in business. As a 2009 Conference Board report states, "executive compensation has become a flashpoint for . . . frustration and anger"

[23] Economist Intelligence Unit, 2005. [24] Deloitte, 2011.
[25] Mufson and Vargas, 2010. [26] Fombrun and Rindova, 1996.
[27] Towers Perrin, 2007–2008.