

An aerial, top-down view of a diverse group of approximately 20 business professionals in a meeting. They are dressed in business attire, including suits, blouses, and dresses. The individuals are scattered across the frame, some standing in small groups, others looking towards the center, suggesting an active discussion or presentation. The background is plain white, making the people stand out.

SPECIAL REPORT

# The Dynamics of Public Trust in Business— Emerging Opportunities for Leaders

*A Call to Action to Overcome the Present Crisis of Trust in Business*

Arthur W. Page

ARTHUR W. PAGE SOCIETY

Business Roundtable  
**Institute for Corporate Ethics**

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## Business Roundtable

The members of Business Roundtable—CEOs of leading U.S. based companies with \$5 trillion in annual revenues and nearly 10 million employees—recognize that effective corporate leadership is critical for ensuring vigorous economic growth, a dynamic global economy, and a well-trained and productive U.S. workforce.

We also recognize that corporate leadership plays an essential role in building and strengthening public trust in business. This perspective is reflected in both our past actions and current endeavors.

In 1982, a Roundtable task force produced a book-length report, *Corporate Performance: The Key to Public Trust*, encouraging large companies to earn public trust and confidence by their performance. Our “Principles of Corporate Governance,” issued in 2002, in the wake of significant governance failures that wounded public confidence, are widely recognized as gold standard practices. In 2004, the Roundtable established the Business Roundtable Institute for Corporate Ethics as part of our efforts to build and sustain public trust in the marketplace.

This report that follows could not be more timely. In recent months we have witnessed how quickly even venerable firms can crumble when confidence in them is lost—and how the loss of trust freezes capital and harms millions of people around the globe through job losses, home foreclosures, lost savings, and general economic upheaval. These turbulent times highlight the great importance of mutuality—of searching for and seizing opportunities that benefit both the public interest and business.

In the midst of this turmoil, the global economic crisis presents a unique opportunity for leaders to step forward and make business better. This is an opportunity we must seize. Current knowledge gaps in the dynamics of public trust, however, present a serious challenge to leaders concerned with developing and implementing an effective long-term strategy for building mutuality and public trust.

This is why the Project on Public Trust in Business (the Project), a new initiative launched with the publication of this report by the Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society, is so critical.

The operating principle of the Project is that concerned businesses and stakeholders, all working together toward a common purpose, can build this knowledge base efficiently, empowering leaders to take more effective action.

Business Roundtable will contribute to and participate in the Project through our new Corporate Leadership Initiative, and we strongly encourage other leaders and organizations to join us in this worthy effort.

Anne M. Mulcahy  
Chairman, Business Roundtable’s Corporate Leadership Initiative  
Chairman of the Board and Chief Executive Officer, Xerox Corporation

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## EXECUTIVE SUMMARY

A task force organized by the Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society set out to investigate the current landscape of public trust in business. Our goal is to provide business leaders with knowledge on which they can base decisions and actions. This report represents the initial step in a larger effort to identify opportunities for business leaders to build and sustain public trust in their companies, in their sectors, and in the institution of business.

The task force believes a new kind of dialogue is needed on this issue, as trust becomes increasingly crucial to business and society in the twenty-first century. The current global economic crisis, in which a lack of trust has weakened the world financial system, demonstrates the importance of this dialogue. This report proposes a basis on which it can begin.

Public trust in business has certain distinct characteristics and dynamics, related to but different from those of other forms of trust—interpersonal, inter-firm and cross-societal. “Public trust in business” roughly describes the level and type of vulnerability the public is willing to assume with regard to business relations. Today, a large portion of the public believes that the majority of its vulnerability in business relationships is not voluntary but rather results from a sizable power imbalance that enables executives and companies to assume far less risk than the average person. This sense has been exacerbated by the current financial crisis, in which American taxpayers have been called upon to shore up financial institutions whose risky behavior put the financial system at risk.

Although individual firms may be exempt from such distrust, and although the broad problem may seem to many to be too large and complex for them to address, our task force concluded:

- The general distrust of business hurts all companies, and, indeed, all participants in the global economy;
- There are concrete actions that can be taken to address and improve public trust in business, and
- The time has come for vigorous exploration of the relatively uncharted territory of public trust in business—social and technological changes have combined to heighten both opportunities and threats while shortening the window in which to take effective action.

Leaders need to become as expert in the trust environment as they are in the technological, economic, political, and competitive environments. Just as it is difficult for an individual firm to succeed if the whole economy is in trouble, so it is difficult for an individual firm to be trusted if all of business is mistrusted.

As a starting point for dialogue, we propose an approach grounded in the general principle that trust creation is really an exercise in mutual value creation among parties who are unequal with respect to power, resources, and knowledge. We believe that a core condition for building public trust is the creation of approaches that create real value for all interested parties—businesses and public alike.

Today’s low levels of public trust, rather than signaling a capricious public or a no-win situation, may represent opportunities for game-changing solutions that can lead to greater efficiency and value creation. These many opportunities, however, are the flipside of many new threats. Both trust and mistrust in firms can be irrationally contagious.

To capitalize on these opportunities and address these threats, leaders must develop a keen practical understanding of the three core dynamics of trust:

1. **Mutuality** - that is based upon shared values or interests
2. **Balance of Power** - where risks and opportunities are shared by parties
3. **Trust Safeguards** - that limit vulnerability in the context of power imbalances

Firms and their leaders need to understand these questions:

- How does public trust in business impact my firm or my sector?
- Which trust configurations matter most to my firm or my sector?
- How does public trust in business impact how regulators think about business?
- What drivers are most likely to affect trust in my company with respect to various stakeholders?
- What business outcomes are connected to various types of trust or distrust and to the actions of mediating institutions?

Recommendations:

To build and sustain trust at the most basic level, a business must manufacture and market quality products or services that are reasonably priced; provide steady jobs in safe and healthy environments; support community institutions serving employees and customers; and provide shareowners with a reasonable return on their investments.

Beyond these fundamentals, the report recommends concrete actions that business leaders can take with respect to building mutuality, balancing power, and creating trust safeguards:

1. Create a set of values that define and clarify what your enterprise and its people are at root, and work to ensure that these values are adhered to consistently across your enterprise.
2. Build and manage strong relationships based on mutual trust with mediating institutions.
3. Embrace transparency.
4. Work within your business sector to build trust in the sector.
5. Re-invest in the trustworthiness of your firm by making a commitment to enhance the core contribution that the firm makes to society.

The report gives several examples of organizations that are building trust successfully and notes that the trend may result from businesses making social good a part of how they conduct their businesses.

Importantly, this report also formally launches the Project on Public Trust in Business (the Project)—an ongoing effort by the Business Roundtable Institute for Corporate Ethics and Arthur W. Page Society to engage other leading organizations in developing and implementing a long-term strategy for building and sustaining public trust in business. Specifically, we will:

- Organize a high-level working group of experts representing major stakeholders, including business, academia, government, employees, consumers, investors, and the media. The group will develop a set of principles for effective business regulation in anticipation of regulatory restructuring that is inevitable in the wake of the global financial crisis. The working group principles will aim to shape a new regulatory structure that reflects the interests and values of the various stakeholders in the financial system.
- Conduct a series of research studies to develop a deeper understanding of the dynamics that impact public trust, with the aim of enabling executives to develop strategies for building and sustaining key trust relationships.
- Promote a dialogue between thought leaders in the areas of trust and business to advance game-changing solutions with regard to practice and the public policy process.
- Assemble leading academics in the area of trust to begin to fill the sizable knowledge gap in our understanding of the dynamics of public trust and deliver actionable knowledge to practitioners.
- Devote increased attention to the issue of public trust in our ongoing work.

## THE GLOBAL ECONOMIC CRISIS: A CALL TO ACTION

*“Over the past century and a half, capitalism has proven its worth for billions of people. The parts of the world where it has flourished have prospered; the parts where it has shriveled have suffered. Capitalism has always engendered crises, and always will. The world should use the latest one, devastating though it is, to learn how to manage it better.”<sup>1</sup>*

– The Economist

**T**he issue of public trust in business has never been more urgent or consequential than it is today. In many ways, the current global economic downturn is, at its core, a crisis of trust.

It is not hard to see why. Global equity markets lost \$30 trillion worth of market capital in 2008. This huge loss of capital tells only part of the economic story. In February 2009, the United States lost an estimated 650,000 jobs, the highest total in 60 years. A Washington Post-ABC News poll from December 2008 reports that “10 percent of homeowners and 29 percent of renters said they have fallen behind on their mortgage and rent payments at some point in the past year.”<sup>2</sup> In January 2009, The Conference Board Consumer Confidence Index™ reached an all-time low of 37.7.<sup>3</sup>

Other recent reports—such as the impeachment of Illinois Governor Rod Blagojevich on corruption charges, Hartford Mayor Eddie A. Perez surrendering on bribery charges, the Bernie Madoff Ponzi scheme, allegations of large-scale fraud at the Indian firm Satyam Computer Services, and the AIG retention bonuses—further fuel public skepticism.

While the global economic crisis may have roots in too much trust—particularly in the arena of risk management and the stability of the housing market—the headwinds that leaders are facing as they attempt to get ahead of the crisis may in part be a result of low public trust in business and government.

Although governments around the world have taken unprecedented steps to restore confidence in business and in the marketplace, their actions are having limited impact on assuaging public anxieties or restoring confidence—in part because public trust in government itself is also extremely low.

According to a New York Times/CBS News Poll survey from October 2008, “only 17 percent of Americans trust the government to do the right thing most or all of the time.” In January 2008, 52 percent of Americans agreed with the statement that “quite a few government officials are crooked.”<sup>4</sup>

Despite capitalism’s track record as an engine of prosperity for billions of people, the current global economic crisis has led some to ponder questions such as, “Is Capitalism Dead?”<sup>5</sup>

At the heart of this question is a deep anxiety about whether or not the public still trusts capitalism to be the best form of social cooperation. Trust and liberty are at the heart of the capitalist concept. As *The Guardian* columnist Simon Caulkin has observed, “Trust is something business can’t do without .... It isn’t some fuzzy nice-to-have; it’s the lubricant without which the City [i.e., the London financial markets] and Wall Street are as frozen as a rusted motor. If there is debt or credit, there has to be trust.”<sup>6</sup>

If the world is to use the global economic crisis to learn how to better manage capitalism, it is imperative that we improve our capacity to build and manage trust in business. As the current crisis makes clear, disasters can result not only when trust is too low, but also when trust is too high. High trust and short-termism in the era of easy credit led to poor assessments of risk, poor decisions, and over-leveraging. Once this became obvious, the trust pendulum swung from irrational exuberance to irrational gloom. “Everyone stopped lending to everyone because no one knew what the other bank’s assets were worth.”<sup>7</sup>

Perhaps because we tend to focus on public trust only during crises, the actual dynamics of public trust in business remain a largely uncharted territory in need of exploration and mapping. In this sense, public trust in business is like plate tectonics—it is the foundation upon which organizations stand or fall but often goes unnoticed until the ground shakes or there is an eruption.

In the wake of the global economic crisis, new regulations will certainly be enacted and new lending practices will emerge, but in order for these actions to effectively build and manage public trust in business, they need to be based on an accurate framework that enables leaders to make well-informed decisions about what actions will actually be beneficial.

Creating a clear and usable map of the core dynamics of public trust in business is the central achievement of this report and taking actions that effectively build and manage trust is the central mission of the Project on Public Trust in Business (the Project) which this report launches.

The three core dynamics of public trust in business are Mutuality, Balance of Power, and Trust Safeguards.

Mutuality is the state of affairs where multiple parties seek to pursue courses of action deemed to be of shared benefit. Balance of power refers to mechanisms of fairness that prevent one party from imposing its will on or simply overpowering the interests of another. Trust safeguards are legal compliance mechanisms that promote fairness in business relations via punitive damages for bad actors and/or reparative measures for those harmed.

Few, if any, would argue that the individuals in the financial services industry who repackaged huge tranches of subprime mortgages to look like AAA rated loans were acting in the interests of their customers, business partners, or the public (mutuality); or that their actions and the likely consequences were transparent to investors in mortgage-based securities (balance of power); or that these activities were sufficiently regulated by the government (trust safeguards).

While calls for regulatory changes (trust safeguards) are certainly warranted in light of the global economic crisis and the Madoff scandal, this will not bring about the cultural changes necessary to build and manage public trust in business if the sole reaction to the crisis is more regulation. Restoring public trust in business also requires businesses to operate more in the public interest (mutuality) and build symbiotic relationships with stakeholders (balance of power). It requires greater transparency and accountability by business with key enhanced roles here for the Board of Directors, while restoring trust in our financial services firms also demands greater transparency and accountability by those official regulators of these firms.

Mutuality is the most critical and flexible mechanism for building sustainable trust in a dynamic world. The case for mutuality should be obvious in the aftermath of the global economic crisis. The fates of business and the public are intimately connected. The fates of organizations are connected. All companies matter to one another. We all have a stake in the state of trust in our capitalist system—a stake in public trust. Malfeasance by one company damages other firms. Businesses have a vested interest not only in maintaining their own ethical standards, but also in the ethical conduct of other businesses. We have a shared responsibility for the health of our economic system, for maintaining it, and for building trust in it through action.

Trust emerges from behavior and interaction, if at all. Specifically, it emerges from working together toward a goal based upon mutually shared values.

One clear lesson from the global economic crisis is that, despite much well-worn rhetoric, Main Street, Wall Street, and Capitol Street all meet at the same intersection. This is true whether Main Street is in Gary, Indiana, or Mumbai, India.

Business leaders need to become more active watchdogs of both their own sector and other business sectors. This means not only foregoing business practices that threaten an industry or the economy, but also helping to bring such practices into the light of public scrutiny where they can be brought to a quick end.

Real change requires moral imagination, the ability to recognize problems and re-imagine our roles in ways that fill responsibility gaps. One way of understanding the crisis is to realize that people relied on the system and the market to a much greater extent than was warranted. What is required now is leadership that will foster mutuality, balance power, and develop effective trust safeguards.

## ABOUT THE TRUST PANELS

In 2007, the Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society convened a series of panel discussions, which included senior corporate executives; academic, consulting, and association thought leaders; representatives from investor, employee, and other stakeholder groups; NGOs; the media; and business organizations. Panelists were charged with taking the current pulse of public trust in business, exploring and refining new paradigms on the dynamics of trust—with the aim of providing practical guidance to corporations and regulators—and testing breakthrough ideas and practices currently underway for creating and sustaining trust in business.

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## INTRODUCTION

In 2007, the Business Roundtable Institute for Corporate Ethics (the Institute) and the Arthur W. Page Society convened a series of panel discussions as the first stage in the Project on Public Trust in Business—an ongoing effort to engage other leading organizations in developing and implementing a long-term strategy to build and sustain public trust in business. The discussion groups included senior corporate executives; academic, consulting, and association thought leaders; representatives from investor, employee, and other stakeholder groups; non governmental organizations; the media; and business organizations. Panelists were charged with taking the current pulse of public trust in business; exploring and refining new paradigms on the dynamics of trust (with the aim of providing practical guidance to corporations and regulators); and testing breakthrough ideas and practices now underway for creating and sustaining trust in business.

These discussions were facilitated by the Institute's Academic Advisors, R. Edward Freeman and Laura Nash—experienced and well-respected experts in the field of business ethics.

Panelists believed that the topic was as complex and elusive as it was important. There was general agreement that public trust in business is of critical concern to CEOs, government leaders, the media, business educators and, of course, the public. More difficulty existed in pinning down the precise trust problem to address. Trust pervades the business system, takes many forms, has complicated dynamics, and is heavily tied to a specific context—namely the situation and relationships between the trusting parties.

As this report indicates, many panelists were concerned by the fact that current strategies and approaches to trust do not adequately connect to the ways trust operates in actual business situations in a world undergoing profound change. This gap undermines their ability to have significant impact on public trust.

Is the longstanding low level of public trust in business an unalterable force like gravity, or is it something

we can change? Currently we lack an answer to this enormously important question. This knowledge gap causes particular anxiety for responsible leaders concerned with public trust and the value-creating potential of business. This potential is held in check in an environment where business is not trusted.

In particular, there is angst over the general impact of violations of trust by a particular company. Reported malfeasance by one firm results in mistrust that can spread quickly to other firms, regardless of their innocence or guilt.

Most panelists agreed that trust and mistrust can be irrationally contagious—and like it or not, all companies matter to each other in terms of public perceptions of business.

Given the shortfalls of current knowledge on the dynamics of trust in twenty-first century business, panelists issued a challenge: to identify new approaches to trust. These approaches must enable leaders to build trust actively in a manner that will mutually benefit companies and their stakeholders. In what one panelist described as “a tumultuous era in trust and escalating public expectations of corporations,” some suggested that business should partner with other sectors on a venture to map the dynamics of public trust in business in order to change the dynamics that impact relationships between business and the public.

This report is based on these panel discussions as well as leading academic scholarship in the area of trust, and a variety of survey data.<sup>8</sup> Its creation began before the current global financial crisis erupted in the Fall of 2008—but the events of the past several months, if anything, reinforced the importance of the topic. The resulting report is not a comprehensive study of the broad issue of trust.



We did not examine its psychological or interpersonal dimensions; its role in inter-firm relationships; or its impact on the operations and evolution of civil society at large. All of these dimensions arose in the panel discussions, and all warrant re-examination in the context of the fundamentally different global economy and society that are now emerging. But they are not our purview here. We aim to initiate a long-term dialogue on this broad and foundational topic, and we plan to do so by starting with a particular focus: the overall perception of public trust in business—why trust has been so elusive and what additional questions must be answered in order to make meaningful progress in increasing trust.

We begin by defining what we mean by “public trust in business.” We then address the core dynamics and strategies that can help leaders build lasting trust in their own companies, their sectors, and in the business community at large. We indicate a number of emerging opportunities for leaders to create value. And we conclude with a proposal for further actions.

This is not the first foray into the topic of trust by either organization. Since its founding in 2004, the Institute has made trust the overarching theme of its work, which includes white papers, executive education programs and practitioner-focused research.

In 2004, the Page Society published a book entitled *Building Trust*, which features essays from 23 of the nation’s leading CEOs on how they create, strengthen, and sustain trust. The CEOs explored in their essays how the policies and practices they use to build organizational trust relate to the Page Principles, a set of guidelines for corporate behavior that are based on concepts first articulated by Arthur W. Page when he served as vice president of public relations for the American Telephone and Telegraph Company from 1927 to 1946.

In 2007, the Page Society put forward a new model for how enterprises and institutions could define their relationships and roles. Described in a white paper entitled “The Authentic Enterprise,” the model is based in part on new research on CEO perspectives toward large-scale changes that are rapidly shifting the business and social environment. These shifts are challenging corporations’ abilities to protect their brands and reputations.

The Page Society’s model places trust—managing it with new urgency and in new ways—at the heart of its recommendations for how corporations need to respond to those challenges. The last of four specific calls to action in “The Authentic Enterprise” urges an enterprise to “build and manage trust in all its dimensions.” The Page Society believes that our new, joint report on public trust—and the Project which it launches—are a complement to “The Authentic Enterprise.” Together, they aim to give businesses a better understanding of the dynamics of trust, as well as more tools they can use to build and maintain it.

## THE PAGE PRINCIPLES

*Arthur W. Page practiced seven principles of public relations management as a means of implementing his philosophy.*

- **Tell the truth.** *Let the public know what’s happening and provide an accurate picture of the company’s character, ideals, and practices.*
- **Prove it with action.** *Public perception of an organization is determined 90 percent by what it does and 10 percent by what it says.*
- **Listen to the customer.** *To serve the company well, understand what the public wants and needs. Keep top decision makers and other employees informed about public reaction to company products, policies and practices.*
- **Manage for tomorrow.** *Anticipate public reaction and eliminate practices that create difficulties. Generate goodwill.*
- **Conduct public relations as if the whole company depends on it.** *Corporate relations is a management function. No corporate strategy should be implemented without considering its impact on the public. The public relations professional is a policymaker capable of handling a wide range of corporate communications activities.*
- **Realize a company’s true character is expressed by its people.** *The strongest opinions – good or bad – about a company are shaped by the words and deeds of its employees. As a result, every employee – active or retired – is involved with public relations. It is the responsibility of corporate communications to support each employee’s capability and desire to be an honest, knowledgeable ambassador to customers, friends, shareowners and public officials.*
- **Remain calm, patient and good-humored.** *Lay the groundwork for public relations miracles with consistent and reasoned attention to information and contacts. This may be difficult with today’s contentious 24-hour news cycles and endless number of watchdog organizations. But when a crisis arises, remember, cool heads communicate best.*

## I. Current Approaches to the Trust Problem: Assessing Measurements and Reform Efforts

### Trust Matters to Business

A person placing an order in a restaurant expects to enjoy the meal as described on the menu and not to be poisoned. There is a risk, however, that the diner's expectations will not be met—that the food will not be properly prepared, that the entrée will consist of subpar ingredients, or that the service will be poor.

Similarly, the restaurant owner expects to make a profit when the customer pays the amount listed on the menu for the items ordered and the waiter expects to receive a tip. In the process of the transaction, however, the owner and waiter risk the possibility that customers may attempt to eat without paying or tipping.<sup>9</sup>

As social scientist Francis Fukuyama notes, the fact that most customers pay their restaurant bills or cab fares without even considering the alternative “indicates that a certain basic level of honesty, practiced as a matter of habit rather than rational calculation, is fairly widespread throughout society.”<sup>10</sup>

*Trust plays a key role in bringing individuals together to create value that no one person could create on her own.*

Trust matters to business. Trust, or “the expectation that arises within a community of regular, honest, and cooperative behavior, based on commonly shared norms,” is what enables economic efficiency and prosperity on both the scale of a small, family-owned restaurant and the macroeconomic scale of the free market.<sup>11</sup>

As Nobel Laureate economist Kenneth Arrow puts it:

*Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance upon other people's word . . . Trust and similar values, loyalty or truth-telling, are examples of what economists would call “externalities.” They are goods; they are commodities; they have real practical economic value; they increase the efficiency in the system, enable you to produce more goods or more of whatever values you hold in high esteem. But they are not commodities for which trade on the open market is technically possible or even meaningful.<sup>12</sup>*

Trust increases efficiency. Without it, things would take far longer and costs would be greater because parties would hesitate to make themselves vulnerable in business transactions. Trust plays a key role in bringing individuals together to create value that no one person could create on her own. Trust acts as a social force to influence organizations that create value, including today's global corporations.

This is becoming increasingly important as the world's economy shifts from integration around the firm to integra-

tion around the endeavor. As Fukuyama explains, large firms “have their origins in the fact that it is very costly to contract out for goods and services with people one does not know well or trust,” hence “firms found it more economical to bring outside contractors into their own organization.”<sup>13</sup> The reality of globalization and the digital network revolution have, among many other kinds of impact, led to the emergence of global sourcing trends—where it is often more efficient to rely on external contractors. This is shifting both the economic and social dynamics of trust.

Even before these macro-shifts there was an enormous amount of evidence indicating that trust positively impacts business success in a number of critical areas, such as employee performance, customer retention, and innovation.<sup>14</sup>

#### *Trust within firms impacts employee performance.*

For example, one study attempting to explain a 13 percent discrepancy in the profitability of the hotels in its sample found that trust in the senior manager was a major factor in determining employee performance and sales.<sup>15</sup>

#### *Trust among firms impacts customer acquisition and retention.*

A study of the buying decisions of 200 purchasing managers confirmed that firm trust is one of the basic “criteria that a company must meet for a customer to even consider it as a possible supplier.” This same study also indicated that both “trust of the supplier firm and trust of the salesperson” have a significant impact on whether or not the firm is able to retain its current customers.<sup>16</sup>

#### *Trust among the business units of large firms impacts innovation.*

A study conducted among the business units of a large multinational electronics company showed that trust among particular units led to greater resource exchange and combination—i.e., sharing of information or product ideas; use of another unit's products and services; or undertaking joint projects. In turn, this higher level of resource exchange created additional value for the firm “through a significant, positive effect on product innovations.”<sup>17</sup>

Trust impacts employee performance, customer satisfaction, and innovation—all of which are widely recognized as significant factors for business success.

### Summary of Key Survey Findings

While the levels of trust in business—e.g., trust within firms, trust among firms, and societal level trust—are interrelated, the concern of this report is the general public's trust in business. “Public trust in business,” as we are using it here, roughly describes the level and type of vulnerability that the public is willing to assume with regard to business relations. It is a critical ingredient for social cooperation and market efficiency and a cause for deep concern when it is absent or threatened.

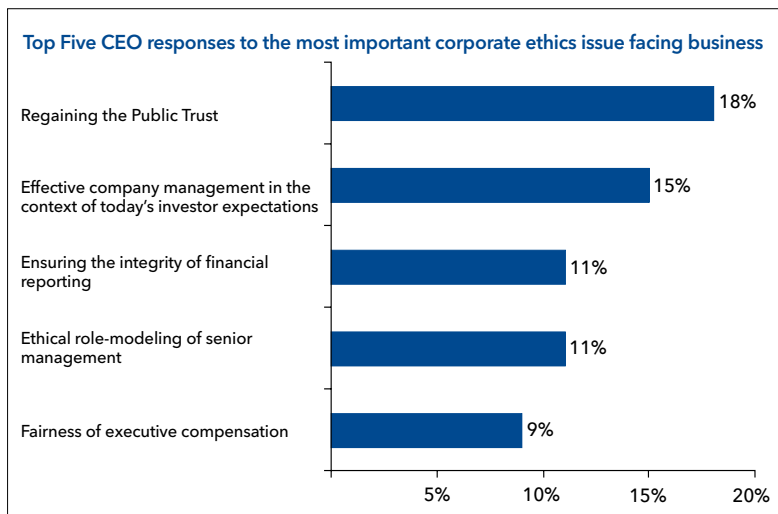


FIGURE 1 Top Five CEO Responses

CEOs responding to the Institute's 2004 survey, *Mapping the Terrain: Issues that Connect Business and Ethics*, recognized the critical importance of public trust, identifying it as the most important and overarching ethics issue facing business. Not only did CEOs identify "regaining the public trust" as the single most important corporate ethics issue facing business, as Figure 1 demonstrates, but each of the top five issues cited in response to this open-ended question is strongly related to public trust.<sup>18</sup> This survey was administered in the wake of the Enron era scandals and the resulting Sarbanes-Oxley Act, which President Bush described as "the most far-reaching reforms of American business practices since Franklin Roosevelt was President."<sup>19</sup>

At the time of the initial *Mapping the Terrain* survey, many indicators suggested the level of perceived public vulnerability was too high, and a number of corrective actions were proposed to redress the balance, some voluntary and others mandated by Congress.<sup>20</sup> The Sarbanes-Oxley Act was, among other things, considered by some to be a declaration on the state of public distrust in business with the clear intent of restoring public confidence.

Mounting evidence seemed to indicate that business either had lost or was in danger of losing the public's trust. This matters because it is the public that ultimately grants business its right to operate. Through the medium of representative government, the public determines the rules of the game—which types of activities are allowed, which are regulated, and which are deemed illegal. As Arthur W. Page said, "All business in a democratic society begins with public permission and exists by public approval."<sup>21</sup>

In the minds of many—including the vast majority of executives—the major business scandals of recent years were primarily the result of greed. There were, however, varying opinions on whether these instances of malfeasance were the result of "a few bad apples" or a rotten barrel. A survey from July 2002—one year after the Enron scandal began to unfold and the same month Sarbanes-Oxley was signed into law—reported that 46 percent of the general public believed "every

company does this kind of thing [i.e., fraud], but only a few more will get caught."<sup>22</sup> In another poll from 2002, 79 percent of the general public said improper actions among top executives are "very" or "somewhat" widespread.<sup>23</sup>

Trust—and mistrust—can be irrationally contagious. Firms and sectors not implicated in reports of business scandals are trusted no more than the culprits whose unethical conduct caused the initial reports. This can lead to a vicious cycle where single cases can be interpreted in ways that reinforce beliefs in a general trend, which may not actually exist.

This kind of negative contagion effect, in which all businesses are associated with the scandals of a few, was widely experienced amongst our panelists. This is not surprising, given the attention the scandals garnered. In the wake of the Enron and WorldCom scandals, many news organizations assigned reporters to a new "business ethics" beat. Many have concluded that the American public has entered a new era of distrust, and a significant amount of blame for the scandals has fallen upon various gatekeeper organizations.

## Business and Society: A Continuing Debate

For more than a century, government has stepped in to protect the public interest by regulating corporate activity in response to a perceived imbalance of power between corporations and the public. During the administration of Theodore Roosevelt, the government sought to break up Standard Oil, U.S. Steel, railroads, tobacco, banks, and other industries thought to be monopolistic. Andrew Carnegie, the Rockefellers, and others from the Robber Baron era became generous philanthropists, but anti-trust legislation (Sherman and Clayton Acts) was adopted and numerous new regulatory agencies were established (Interstate Commerce Commission, Food & Drug Administration, Federal Reserve Bank, etc.).

During the Great Depression, Franklin Roosevelt's New Deal focused first on financial services. The Securities Acts of 1933 and 1934 created the Securities & Exchange Commission, which regulated corporations, stock exchanges, and brokerage firms. Other New Deal agencies regulated other major industries, including aviation, electric and gas utilities, communications, mining, fishing, and labor practices.

In the 1960s, Congress enacted equal opportunity employment legislation for minorities and women and created the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA). In 1973, Congress created the Consumer Product Safety Commission, which revolutionized consumer product labeling—and even the language contained in life and casualty insurance policies and bank loan agreements.

During these same hundred years there was an ongoing debate about the role and responsibility of business. In 1889, Andrew

Carnegie argued in “The Gospel of Wealth”<sup>24</sup> that government ought not to interfere in private commerce, but that the wealthy should give their money to philanthropic causes. In 1931, the *Harvard Law Review*<sup>25</sup> carried a debate between two law professors in which Adolph Berle argued that corporations were accountable only to shareholders, while Merrick Dodd made the case that companies should take into account the interests of other stakeholders. In 1960, David Packard denied that “a company exists simply to make money” and asserted that it should “make a contribution to society.”<sup>26</sup> But in 1970, Milton Friedman wrote in “The Social Responsibility of Business is to Increase Its Profits”<sup>27</sup> that a firm’s duty is to its shareholders. In 1984, R. Edward Freeman (one of the co-authors of this report) articulated stakeholder theory, which holds that managers ought to have a sense of the value the firm creates and to ask what responsibility management has to stakeholders.<sup>28</sup>

Throughout this period, as government regulation increased and the responsibility of business was debated, an informal social contract emerged between business and the public. This societal model held that both the operations and outcomes of business, government, and civil society at large had become too complex and interconnected—and later too global—for the regulatory regimes and institutions of the nineteenth century (much less the Invisible Hand) to manage. New rules of the road were needed.

While acknowledging that under this twentieth century model, the primary objective of a business was to be profitable, it was seen to gain and maintain that status by adhering to certain standards: producing and marketing quality products and services at reasonable prices, providing steady employment in a healthy and safe environment, supporting community institutions, and generally acting as a responsible corporate citizen. The general understanding was that if the corporation acted in this manner, it would earn a reasonable return for its shareowners.

This twentieth century consensus was challenged and began to erode in the late 1980s. Part of the pressure came from the emergence of a far more open and competitive global economy. Some came from the lower barriers to entry caused by the Internet. And some of it came from new ways of working and organizing, which were made possible by integrating technology far deeper into the fabric of work and life. Together, they led to simultaneous shifts in the business environment. These were manifest in everything from layoffs related to outsourcing and distributed supply chains, to the predominance of financial capital over production capital. The Wall Street-driven focus on quarterly profitability reports also created competition for management talent that produced significant increases in CEO pay. Set beside layoffs and corporate benefit downsizing, this created a perception that the deck was stacked in favor of the powerful. In brief, a revolution in business and technology was underway, and the global financial markets chased its upside.

Among the effects of this trend was a rapid increase in corporate buyouts. The corporate raiders of the era argued that the overriding objective of corporations was maximizing

shareowner equity. Leveraged buyout firms gave short shrift to the idea of a social contract and contributed to a public perception that businesses believe that “greed is good,” as expressed by the fictional, but all-too-real character of Gordon Gecko in the hit 1987 movie *Wall Street*.

In 2006, the Business Roundtable Institute for Corporate Ethics and the CFA Institute decried “the obsession with short-term results” that destroys long-term value and decreases market returns,<sup>29</sup> and following the global financial crisis of 2008-2009, former General Electric CEO Jack Welch told the *Financial Times*, “On the face of it, shareholder value is the dumbest idea in the world. Shareholder value is a result, not a strategy . . . Your main constituencies are your employees, your customers and your products.”<sup>30</sup>

## Legislative/Compliance Responses

Some believe the problem of public mistrust in business can be solved with tighter regulation to redress the trust imbalance. Our panelists feel this is too limited a view.

Enron, WorldCom, and other corporate failures in the early years of the new Millennium added to the perception that corporations were driven more by greed than by serving the public interest. The Sarbanes-Oxley Act of 2002, which followed these scandals, required chief executive officers and chief financial officers to certify financial reports. It also required firms to comply with stricter internal controls and develop greater board independence. These measures have produced some notable positive effects. Executive certification appears to have increased the legitimacy of financial reports. The number of firms reporting material weaknesses in internal controls has decreased by 4 percent. And in 2007, 90 percent of Business Roundtable companies reported their boards were at least 80 percent independent.<sup>31</sup> The new law forced companies to take actions that would have been difficult to take on their own—but have often proved beneficial. Companies have taken credit for their compliance and received good marks as a result.

Despite these positive and important changes brought about by Sarbanes-Oxley, measures of public trust in business have not improved noticeably since its implementation. For example, a 2005 World Economic Forum survey indicated that trust numbers in companies dropped sharply within 2004. According to this study, public trust decreased for “both large national companies and global firms, with the latter at an all-time low.”<sup>32</sup> One might argue that this survey came too early to reflect the Act’s impact—but the picture was largely the same in 2007. In the Better Business Bureau/Gallup Trust in Business Index, 18 percent of respondents reported that their trust in the companies with whom they regularly conduct business had decreased in the last year.<sup>33</sup>

Indeed, academic research suggests that the “law of unintended consequences” may be at work. Gatekeeping measures may actually have contributed to declines in public trust in business. These studies have found that “innocent employees” who are subjected to additional compulsory oversight measures often “become less committed to internal standards of honesty and

integrity in the workplace.”<sup>34</sup> In other words, additional oversight may unintentionally shift attention away from key stakeholder relationships that can build trust. Additional oversight communicates an environment of distrust—both to employees who resent it and those who come to rely on it. It sends the message that they are not personally responsible for maintaining standards.<sup>35</sup>

Increasing oversight can actually result in lower trust among those subjected to increased scrutiny and among the individuals exercising the oversight. Studies have shown that increasing surveillance sometimes decreases trust in those who are monitoring the behavior of others.<sup>36</sup> A study of flight attendants working for a major airline found that oversight policies designed to ensure high levels of customer service caused flight attendants to fear and distrust the passengers they were serving—even suspecting that some customers were undercover managers monitoring their performance.<sup>37</sup>

Certainly, some regulation is necessary, especially where it mandates important behaviors that would be difficult or impossible for any company to undertake on its own. To some extent, that may contribute to trust in business. At a minimum, the business regulation of the past 100 years has created a system of norms within which market participants can function with sufficient levels of confidence—especially in times of social turbulence. But regulation is not a silver bullet solution. Oversight can, in some cases, simply reinforce distrust—or even encourage us to forgo the difficult work of forging mutuality at the deep levels of values.

## Business Reactions

Like some regulators, a number of managers have tended to adopt a linear, mechanical approach to the issue of public trust. Many executives concerned with the current state of low public trust in business seem inclined to address it largely as a “repair” issue. If you put in X number of reforms, out will come the gold star of public approval.

Not surprisingly, this type of corporate reform effort closely mirrors that of legislators—except that the gatekeeping measures are internal to organizations. Both are driven by a recognition that the current environment is predisposed toward further regulation of business.

As one panelist remarked, “Issues seem to rise up like that game, Whack-A-Mole—where we feel the need to respond to the issue of the day in order to stop further regulation.” Larry D. Thompson’s warning about the limits of regulation and compliance mechanisms—“Regulations expand with each ensuing scandal to encompass every possible abuse ... except for the next one”—applies to internal company efforts as well as to legislative ones.<sup>38</sup>

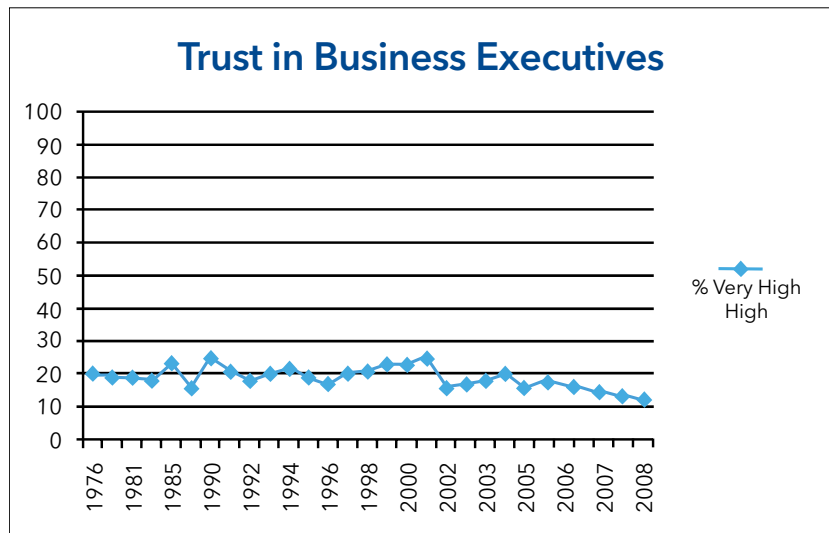


FIGURE 2 Trust in Business Executives<sup>39</sup>

The panel agreed that formal ethics programs can be extremely positive in embedding ethics into the cultures of individual firms, but also it felt that this is an incomplete approach. We know from the results of similar past attempts that these initiatives have mixed results and are unlikely on their own to dramatically alter perceptions of business or even corporate behavior so as to increase the level of public trust.

Other research confirms this view. Despite a visible increase in formal attention to ethical issues throughout the corporation—from the boardroom to the mailroom—there has been little change in the state of public trust in business.

Many surveys show low and stable numbers with regard to public trust in business before and after the Enron era scandals and before and after Sarbanes-Oxley. In 2004, the Pew Research Center reported that recent corporate scandals have had a “minimal impact on public opinion.”<sup>40</sup> Likewise, the USA Today/Gallup poll, which measures public trust in a variety of professions, shows a relatively flat trend in the level of trust that the public has in business executives over its 32-year period (1976 -2008). From 1976 to 2006 both the average and the mean for individuals reporting a “very high” or “high” amount of trust in business executives is 20 percent.<sup>41</sup> While this indicates a low level of trust for three decades, recent trends are troubling. There is evidence of an Enron dip in 2002 which was followed by a slight recovery before continuing a further downward trend, with trust levels reaching an all-time low with the current economic crisis.

This seeming inability to move the dial on public trust in business can be perplexing for organizations and executives who prioritize ethics and are motivated by creating value for their stakeholders. For example, as the Pricewaterhouse Coopers Health Research Institute stated in a 2007 report on trust in the pharmaceutical industry, “It continues to be difficult to understand why an industry whose mission is to save lives and improve the health of our communities should be held in such low public esteem.”<sup>42</sup>

The fact that the public gives pharmaceutical companies scant credit for the concrete value they are providing society in terms of health benefits can cause some executives to wonder if they are simply in a no-win situation with respect to public perceptions—“perceptions, accurate or inaccurate, have the effect of reality.”<sup>43</sup>

Instead of viewing low levels of public trust as evidence of a capricious public or a no-win-situation, however, the Trust Panel noted that not every attempt by companies to build trust hits a brick wall of public skepticism. There is evidence that a number of companies are effectively building trust among key stakeholders and publics.

For example, in a recent edition of the Harris Interactive Reputation Quotient™ (RQ) survey, five companies—Google, Johnson & Johnson, Intel Corporation, General Mills and Kraft Foods, Inc.—all received scores of 80 or higher, reflecting an “excellent” reputation. The Reputation Quotient™ is based on a comprehensive instrument that “rates a company’s reputation on 20 attributes (each measured on a 7-point scale) that fall into six key dimensions: Emotional Appeal, Products & Services, Social Responsibility, Vision & Leadership, Workplace Environment, and Financial Performance.” All of the firms receiving an “excellent” rating scored among the top five of all firms in at least two of the areas—evidence that they are successfully building trust with multiple stakeholders.<sup>44</sup>

Indeed, the new Millennium is witnessing growing commitment to corporate social responsibility. In significant measure, this has been spurred by the rise of new, non-governmental advocacy organizations, themselves shaped by globalization and enabled by the digital networking revolution. These NGOs are generating new demands for transparency and corporate responsibility. Some companies are choosing to engage these emerging stakeholders, seeing the advocacy not as a threat but as an opportunity to build an authentic, enterprise-wide commitment to strong values and to society.

The Edelman Trust Barometer, which surveys global “opinion elites”—individuals who are “college-educated; report a household income in the top quartile of their country; and report a significant interest in and engagement with the media, business news, and policy affairs”—shows similar results to the Reputation Quotient™, which surveys members of the general public, despite the different demographic of its survey populations. The 2008 version of the Edelman Trust Barometer asked respondents how much they trusted a range of companies to do what is right. A handful of companies—including UPS, Sony, and Johnson & Johnson—received a strong positive response from more than 75 percent of survey respondents.<sup>45</sup>

However, the 2009 Edelman Trust Barometer—based on interviews conducted from November 5–December 14, 2008—showed how quickly trust in business has faded in the face of the global economic crisis, with 62 percent of respondents worldwide, and 77 percent of respondents in the U.S. reporting that they “trust corporations less now than they did a year ago.”<sup>46</sup> Among U.S. opinion elites, those trusting in business to do what’s right fell from 58 percent to 38 percent in one year.

Writing in the *Financial Times* on the 2009 survey results, Richard Edelman, the President and CEO of the firm that conducts the Trust Barometer, chronicled how quickly these previous advances in trust in business crumbled: “By a 3:1 ratio, respondents want tougher regulation of business. At the same time, two-thirds think business should partner with government to solve global issues like the credit crisis and energy costs. Yet to play the meaningful role it must in shaping the new world, business will have to make the case that it can be trusted – and have that case believed. At the moment, this appears a daunting task.”<sup>47</sup>

The most recent Edelman findings—along with the decline in public trust in business among non-elites—demonstrate the inherent difficulty in attempting to engineer an upward trend in public trust and suggest the need for a new approach. Before moving forward it is helpful to identify some limiting paradigms and their negative impact on public trust in business.

## Changing Limiting Paradigms: What Leaders Know—and Don’t Know—about Trust

As our panels noted, it has been clearly demonstrated that making profits and creating value for stakeholders and communities are not inherently in conflict. Numerous research studies have shown the companies that engage social concerns in their strategies are often among the most profitable firms.<sup>48</sup> Being socially responsible is not about offsetting negative impacts—such as planting trees because you pollute—but about taking actions that both create value for stakeholders and are good for business.

Business, defined in this manner, is a moral enterprise. Dealing with business and social issues as if they are separate endorses the archaic and destructive idea that business activity is either inherently unethical or, at best, morally neutral. To be sure, there are well-developed schools of thought that hold this view. They tend to be found at either end of the political spectrum. But, for many, this dichotomy is becoming increasingly irrelevant, an artifact of earlier eras of industrial capitalism. With greater frequency, leaders, workers, and citizens alike are concluding that the responsibility for outcomes of all kinds—economic, societal, and environmental—must be shared and collaborative. The old division of labor among the traditional “estates” is ill-suited to the reality of a globally integrating, networked, and “real-time” firm, marketplace, and society.

The deeper challenge for leaders, therefore, is to promote a way of doing business that integrates considerations of business, ethics, and society. For example, if a company is creating value for all of its stakeholders—customers, suppliers, employees, communities, and shareholders—asking the additional question of whether or not the firm is socially responsible simply makes no sense because working together to create value that none of us could create on our own is the social purpose of business.

When this central purpose is not broadly internalized by the people who constitute a business—to the extent that it becomes embedded in how they make decisions—it can lead to additional external rules being imposed. As Francis Fukuyama

notes, “there is usually an inverse relationship between rules and trust” and “past a certain point, the proliferation of rules to regulate wider and wider sets of social relationships becomes not the hallmark of efficiency but a sign of social dysfunction.”<sup>49</sup>

Trust can help remove barriers to value creation. As barriers to value creation are removed, this leads to further innovation that protects the firm against what many business executives recognize as the single greatest business risk—an inability to differentiate the company from its competitors.

As one panelist noted, “people get excited about changing the industry—they want to know what the next big thing will be.” One prominent case where such an approach has paid both tangible and intangible dividends is Apple—*Fortune Magazine’s* 2008 Most Admired Company—whose CEO Steve Jobs famously convinced leading executives from other companies to join his firm by asking them: “Do you want a chance to change the world?”<sup>50</sup>

While many leaders seem to recognize the importance of interpersonal and interfirm trust, many do not currently know the extent to which public trust in business impacts both their company and their sector, and they miss the tremendous value-creating opportunities available to those who embed broader social issues into their strategy. Leading a large company while keeping abreast of social issues that engage the broader public is a challenging endeavor.

A recent study by McKinsey shows that “six out of ten executives believe that the public expects companies to take just as much responsibility as governments for handling social issues.” The same study, however, reports there are significant gaps between consumers and corporate leaders with regard to 1) the social issues that are of greatest importance and 2) the actions that a large firm could take to improve the public’s image of the firm.<sup>51</sup>

The McKinsey authors suggest that “failing to meet generally expected social responsibilities” explains why only 40 percent of American consumers say they “trust large global corporations to act in society’s best interest all, most, or even some of the time”—and why many managers tend to “view social political trends as risks rather than opportunities.”<sup>52</sup>

A research initiative by the European Academy of Business in Society confirms the prevalence of this managerial perspective with regard to social responsibility. Of the 210 senior managers from 19 multinational corporations who participated in this study, 64 percent view social responsibility primarily in terms of risks to their company; 20 percent view it primarily in terms of stakeholder concerns; and only 16 percent view social responsibility in terms of “opportunity to address social maladies.”<sup>53</sup>

A partial explanation for this disconnect is that executives

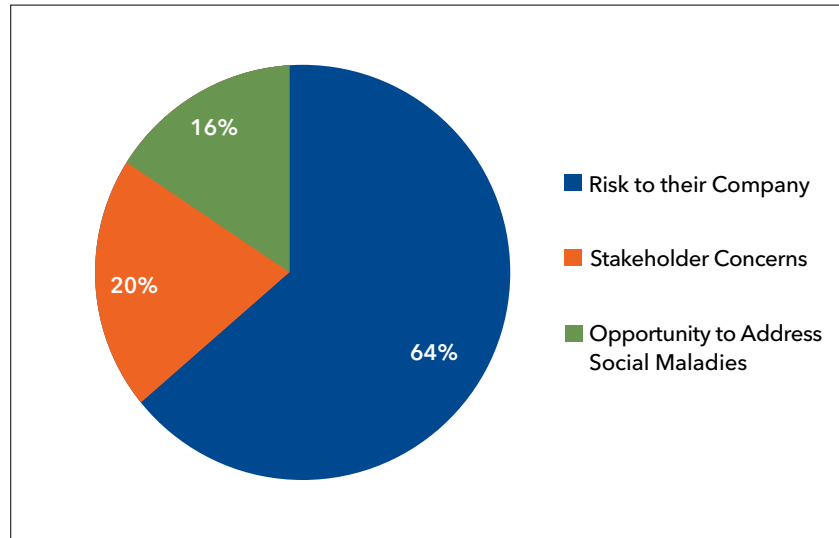


FIGURE 3 How Managers View Social Responsibility<sup>54</sup>

neither fully understand why public trust is relevant to their companies, nor how to create and sustain it.

In particular, panelists expressed frustration that the language and models we use to describe and understand public trust fail to provide leaders with effective, actionable information. As one panelist explained, “No one ever talks about public trust in the boardroom—we talk about customer loyalty and the *Fortune* 500 survey of the ‘Most Admired Companies’—things that seem more closely related to our company.”

Panelists, meeting prior to the onset of the global economic crisis, noted a similar lack of concern about public trust among the investment community as the Enron-era business scandals became more remote. “The markets don’t care right now,” one panelist said. “They only care about trust when there is an Enron.” This statement has proved to be prescient in the context of the global economic crises and in light of questionable practices by some firms operating in the financial services sector. The crisis has led national governments around the globe to intervene in financial markets on an unprecedented scale in the name of restoring investor confidence and public trust, which are widely recognized as vital to economic recovery.

These current and ongoing actions highlight the fact that there are important groups to whom public trust always matters deeply—namely, government officials, regulators, and legislators who can change the environment in which business operates. As in the past, a new wave of regulation can be expected. But the pressing question remains—to what extent will these regulatory changes improve public trust in business and what else needs to be done?

While public trust surveys may seem to be distant from the daily decisions of individual companies, the numbers these surveys report are troubling. They send a strong signal that business’s social relationships are in need of repair, much as an elevated body temperature signals a physical illness. Current public trust metrics, however, are frustrating to concerned leaders because,

in themselves, they do not identify either the specific ailment or the proper remedy. Furthermore, the mere repetition of low trust numbers can contribute to a self-perpetuating cycle that views business as morally questionable. Additional analysis—identifying the correct secondary symptoms—is required to avoid a misdiagnosis and identify corrective actions likely to be effective.

## Public Trust in Business Matters to All Companies

Panelists asserted that trust associated with personal experience with very specific companies is more enduring than vague public sentiments of disfavor towards business. Studies such as the Reputation Quotient™—from Harris Interactive and the Reputation Institute—and the Edelman Trust Barometer show that trust in certain leading companies remains extremely high. The same is true for individual sectors such as technology.

One of the questions posed by the Edelman Trust Barometer was: “How much do you trust that company or organization to do what is right?” Companies that received a strong positive response include UPS at 89 percent, Sony at 78 percent, Johnson & Johnson at 77 percent, and Coca-Cola at 69 percent.<sup>55</sup>

On one hand, it appears that business is hopelessly mired in endemic low public trust; on the other hand, trust in certain leading companies is strong. This can lead executives to believe that they need only concern themselves with public trust in their firms and not with public trust in business.

While companies with high trust are likely doing things that other firms are not, the truth is that distrust in business puts all companies at risk. As one panelist suggested, it is entirely possible that a firm that is trusted by all of its stakeholders might not be trusted by the general public. Reputation and other metrics do not explain this phenomenon, because they do not account for the impact of public trust in business.

Research from the field of political science has found that while personal contact is indeed “an important source of trust [in an individual Congressperson]... equally important are the attitudes that voters harbor toward the political system and its component institutions.”<sup>56</sup> This is true, whether or not voter attitudes are an accurate reflection of reality.

If the dynamics of trust in business are analogous to those in politics, then the CEOs in the Institute’s 2004 *Mapping the Terrain* survey were correct to believe that public trust in business matters deeply to their companies. Perhaps, as multiple panelists suggested, the underlying importance of public trust in business is more evident in the context of scandals than under more normal circumstances.

One way of highlighting this is to ask the question, “Who paid for the Enron-era scandals?” The short answer is *all companies and their investors* paid by having to comply with Section 404 of the Sarbanes-Oxley legislation—to the tune of \$35 billion, according to one recent estimate. Another study puts the annual cost of business compliance with governmental regulations at “\$1.1 trillion—more than 10 percent of the GDP.”<sup>57</sup> This does not account for additional reputational costs.

*Clearly, all businesses matter to one another.* This also indicates that the way business leaders react to malfeasance at other firms may be of critical importance to public trust in business—and in turn, in their firms and sectors. As Irving Kristol suggested more than 30 years ago, if the business community remains silent during corporate scandals, this “speaks far more eloquently to the American people than the most elaborate public relations campaign ... And it conveys precisely the wrong message.”<sup>58</sup>

Our panelists suggested that distrust of business is deeply embedded in society and that we need to have a better understanding of why this is the case. If public trust in business impacts other areas of trust—i.e., trust in organizations, mediating institutions, and individuals—then issues that influence or heighten concerns about public trust in business (such as scandals) may in fact have an outsized, “across-the-board,” effect (positive or negative) with important implications even for companies with no direct connection to the issue in question. In particular, managers may lack constructive answers to the following critical questions:

1. *How does public trust in business impact my firm and/or my sector?*
2. *Which trust configurations matter most to my firm and/or my sector?*
3. *How does public trust in business impact how regulators think about business?*
4. *What drivers are most likely to affect trust in my company with respect to various stakeholders?*
5. *What impact do mediating institutions have on trust in my company and on public trust in business?*
6. *What role can my sector play in positively impacting key areas of trust? What role can business associations play in changing public perceptions?*
7. *What business outcomes are connected to various types of trust or distrust and to the actions of mediating institutions?*
8. *How should I measure and assess/benchmark trust with respect to my firm and sector? What trust goals should my company and sector set for the next five years?*
9. *What are the systemic risks of low public trust in business and related institutions?*

There is a clear and critical need to develop a new paradigm that will provide business leaders, legislators, regulators, and other mediators with information that is actionable for moving public trust in business in a positive direction. The remainder of this report describes this new paradigm, identifies the three core dynamics of trust, offers preliminary recommendations for building trust, and indicates how further research can help to implement these changes.

## II. Reconstructing the Managerial Paradigm—New Approaches to Public Trust

What do people mean by public trust? Again, most current surveys offer limited insight—they do not tell us whether participants are responding from a perspective of employees, customers, shareholders, or citizens. They often do not indicate what dimension of trust is being assessed—e.g., honesty, competence, confidentiality, fidelity, etc. There is built-in confusion with any broad-brush measurement of public trust in business because there are multiple publics, trust can be a paradoxical dynamic in balancing vulnerability and mandated guarantees of behavior, and respondents many have very different ideas regarding what is meant by the term “business.”

In the Trust Panel discussions, three major issues demanding new thinking were identified: viewing public trust as a monolith, treating the contagion effect as unmanageable, and relating trust to value creation.

Public trust is not a monolith. The common approach to public trust, as if it were an indivisible aggregate concept, gives rise not only to the notion that it is too abstract to be actionable, but also, ironically, to the false hope that business can obtain uniform, across-the-board improvements. There is no one public, but rather many publics. Public trust is not a single baseline; it is a dynamic process subject to feedback mechanisms that constantly shift under changing conditions and players. It must be measured and approached in a way that reflects these dynamics.

Contagion does not mean terminal disease. As widely noted anecdotally, the contagion effect tends to be viewed with a certain degree of helplessness, based on the assumption that it is one of those unfair and irrational facts of corporate life. To the degree that it is driven by the behavior of other business people, it is perceived as being beyond corporate control, except through legislation and censure.

Although one trigger of mistrust might have a hundred times the power of one trigger of trustworthiness, interpreting the contagion effect as simply an irrational or mean spirited phenomenon is a non-starter that arrests progress. Building a knowledge base on the dynamics of trust creation and dissolution will enable leaders to accurately assess the drivers of particular behaviors or relationships with various publics, recognize potential opportunities and threats, and balance interests and responsibilities accordingly.

Trust creation is a business asset that emerges from behavior—specifically, from creating value in circumstances where power imbalances are endemic. Panelists concluded that trust creation is an exercise in mutual value creation among parties who are unequal with respect to power, resources, and knowledge. A core condition for building public trust appears to be the creation of real value for all interested parties—businesses and publics alike. A consensus developed that a clearer understanding of the forces shaping public trust and the limits of current approaches can put a helpful close on certain non-productive strategies. A fresh approach presents real opportunities for game-changing solutions. But first we must refine and more clearly define what we mean by “public trust,” as well as develop new ways to measure the dynamic relationships involved.

Public trust, like other forms of trust, is at minimum a three-part relationship that has to do with expectations of future behavior. A trusts B to do C—or, for example, the public trusts business (or a company) to produce “useful, safe, and reliable goods and services.”<sup>59</sup>

Trust relationships quickly become more complex when we consider the additional roles of the social context of business and mediating institutions: A trusts B to do C in context D

### Examples of Trust Relationships

*A person → trusts a company → to produce a quality digital music player → in the context of a competitive market → because peers have raved about this product.*

*A citizen → trusts the local chemical plant → to be environmentally friendly → in a context where the firm has established a strong partnership with a leading environmental NGO and local government officials, and where the firm regularly and transparently reports its emissions, waste disposal policies, sustainability strategy, etc. → because she believes that safety, community, citizenship, and respect for the environment are core values that are embedded in this company's culture and strategy—and because there are legal mandates in place to enforce these principles.*

*An investor → trusts a research analyst → to produce unbiased, accurate reports → in a context where a company provides focused, quarterly earnings guidance to analysts, but not more detailed information on company value drivers that would allow for greater differentiation of analyst research → because she believes her financial analyst is competent and has her client's best interests at heart and because the analyst's firm has a reputation for delivering strong returns.*

TABLE 1. Trust Relationships

because of E. Table 1 gives some concrete examples that illustrate the complexity of these relationships.

Many participants expressed the view that the complexity of trust situations has increased in recent years in the “new reality brought about by advances in communications technology and globalization.” These changes—where individuals can now easily create channels to voice their opinions on an organization—make it clear that understanding trust as monolithic or unidirectional is no longer feasible or helpful.

The complexity of these trust dynamics, as many panelists indicated, can become overwhelming. One panelist noted, “Trust is like an airplane. It’s an end product, but many things go into it.” Because of the various levels and dimensions of trust, these leaders believe it is necessary to clarify the dynamics of trust in a way that can help leaders make good choices. By listening closely to our panelists and reviewing the current literature in the field, we were able to develop a more action-oriented framework, based on three core dynamics of trust.

### The Three Core Dynamics of Trust—Putting the Paradigm into Action

The three core trust dynamics identified by the panels and supported by research are mutuality, balance of power, and trust safeguards. Together they can foster voluntary vulnerability in the context of power imbalances.

For corporations to help restore public trust in business—and to capitalize on the opportunities such increased trust would create—they will have to do three things. They must identify values and interests that can serve as a foundation for mutuality. They must assess and balance the power and vulnerability of each party. And they must establish minimal safeguards against bad actors to protect those willing to make themselves vulnerable.

The three core dynamics of trust operate most effectively when they work together like gears in a machine. They are not, however, of equal value for building trust. If we imagine trust as a circle, mutuality is the center; balance of power is the circle outside of that; and trust safeguards occupy the outer most boundary.

Mutuality is the central dynamic because it is the most effective, adaptive, and lasting of the three. If the public believes that its interests and business’s interests are in harmony, it is easy to see that the public would trust business to act in its interest.

Even when mutuality clearly exists, however, balances of power and trust safeguards are still necessary. For example, general accord about the value of safe and fast travel is, in itself, insufficient for creating safe roadways with steady traffic flows. Intersections need stoplights or traffic officers (trust safeguards).

Mutuality	
<b>Effective Forms:</b>	<i>Based on authentically shared values and interests. Create value for multiple stakeholders.</i>
<b>Trust Breakers:</b>	<i>Scandals. Actions that appear opposed to stated values (lack of perceived integrity or authenticity). Repeatedly trading off the interests of one stakeholder group for those of another. New players in the relationship with highly contrasting culture.</i>
<b>Reported Progress:</b>	<i>Business and public share many values. Attention is being given to broader social issues. Some leaders see business as a stakeholder in social issues.</i>

TABLE 2. Mutuality

The rules of the road need to reflect the different modes in which people travel—walking, bicycling, driving—and the safety concerns associated with each. Pedestrians are given the right of way over motor vehicles to help equalize the imbalance in the respective powers of pedestrians and automobiles to do harm and to protect persons from harm in the case of collisions.

### Mutuality

Mutuality is the state of affairs where multiple parties seek to pursue courses of action deemed to be of shared benefit, as noted in Table 2. There are many forms of mutuality. Shared values, interests, and authentic dialogue were identified by panelists as the three key forms of mutuality most relevant to building public trust in business.

One of the most adaptive models we have for understanding mutuality of relationships is the stakeholder model, which is a way of identifying all of the groups needed to achieve business interests. A stakeholder is any person or group that has a stake in the activities that make up a business—e.g., shareowners, employees, customers, managers, and the communities where a firm operates. Business is a cooperative enterprise, a product of various players who have stakes in the outcome—an outcome that no one could create on his or her own. The heart of business relationships—represented in the two innermost circles in Figure 4—is a value-creating deal among the core stakeholders.

As panelists noted, the values and interests of business are not inherently at odds with those of society. By engaging social and political values and trends, many companies create value every day for multiple stakeholders, including investors. For many firms, social engagement is normative and strategic—public interests are embedded into business activity as integral elements of the firm’s core purpose and strategy.

When there is a sense, however, that values are not truly shared—i.e., that public interests and values are embedded in business primarily via compulsion—it often results in the phenomenon of contagion. Contagion occurs when aberrant,

exceptionally bad behavior (e.g., the Enron era scandals) is assumed to be the rule in business. As one panelist explained, the public's perception of business during the Enron period was not that there were "a few bad apples," but rather "vast orchards of bad apples" whose desire for personal profit overrode all other interests.

"Actions speak louder than words," according to one panelist. "If the public believes that an organization's first priority is always profit maximization, it will be difficult, if not impossible, to build public trust." This axiom about public perceptions is operative whether or not the perception accurately reflects the reality of business practice.

As a means of better understanding how people understand the term "public trust," the Institute conducted a month-long, informal survey of U.S. news publications to see how the phrase was being used in public forums. The nonscientific results provide valuable insight that is relevant to business. In particular, most people who mentioned public trust did so using moral, emotional, even quasi-religious language. They regularly used terms like "sacred," "inviolable," and "most basic values" to describe public trust. This suggests that a perception of shared values is a foundational form of mutuality that is critical for the creation and sustainability of public trust.

The recent work of Harvard researchers Michael Pirson and Deepak Malhotra on the drivers of stakeholder trust underlines the importance of personal identification in issues of trust.

Pirson and Malhotra conducted a study to identify which of seven trust drivers—benevolence, integrity, managerial competence, technical competence, reliability, transparency, and identification—are relevant to various stakeholder groups (i.e., investors, employees, suppliers, customers, etc.).<sup>61</sup>

They discovered that identification—i.e., the extent to which we view a group as "people like me," people who share our interests and values—was one of only two drivers "that are relevant across all stakeholders."<sup>62</sup> Not surprisingly, the other driver relevant across all groups was integrity.<sup>63</sup> As Pirson and Malhotra note, this "suggests that the decision to trust others—even in relationships that are not extremely close or intense—may be more personal and more relevant to one's self identity than is typically assumed."<sup>64</sup>

Branding experts have long understood that "consumers are more likely to find a company's identity more attractive when it matches their own sense of who they are ... (i.e., their traits and values)."<sup>65</sup> Pirson and Malhotra's research, however, implies that values identification also impacts people's trust in firms and institutions with which they have little or no personal contact or experience.

Some thought leaders view NGOs as a new and potent manifestation of the public's long-standing desire to unite corporate values and interests with their own. These leaders suggest that by partnering with organizations perceived to share society's values and interests, business leaders and mediating institutions—e.g., governments, industry groups, and the media—can change the paradigm of the business and society relationship from that of a battlefield of competing values to that of a roundtable where partnerships and actions based on shared interests and values are a real possibility.

*"Actions speak louder than words," according to one panelist. "If the public believes that an organization's first priority is always profit maximization, it will be difficult, if not impossible, to build public trust."*

Given the central role of values, encapsulated interest—the idea that people trust an individual or organization because they believe the person or organization has taken the trusting party's interest to heart and encapsulated it into their own interests—is likely to be the fulcrum of any game-changing solutions for building and sustaining public trust for the long term.<sup>66</sup>

Although there is a gap between the opinions of business leaders and the general public with respect to the social responsibility of business and what this entails, Table 3 indicates that there is also considerable agreement on the current social issues that are of greatest importance.

Shared concern with particular social issues can serve as a solid foundation for creating greater mutuality between a business and its stakeholders via authentic dialogue. As a recent report from the World Economic Forum indicates, more and more

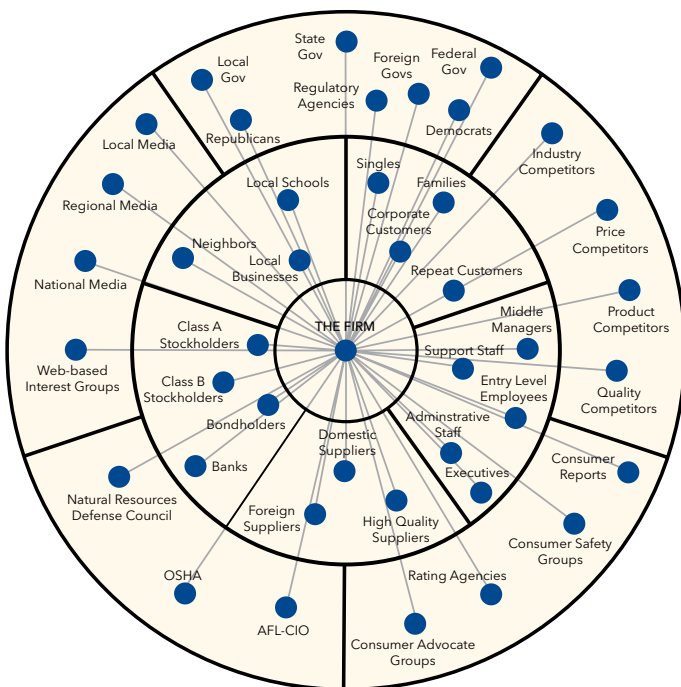


FIGURE 4. Specific Stakeholder Map for a Particular Company<sup>60</sup>

Issues Shared by Major Business Associations and the Public	
•	Workforce/Economy
•	Energy
•	Healthcare
•	Education
•	Environment
•	Public Governance
•	Civil Security

TABLE 3. Shared Issues<sup>67</sup>

business leaders are viewing themselves, their firms, and business at large as stakeholders in other institutions.<sup>68</sup>

In January 2007, for example, “ten major companies with operations across the U.S. economy—utilities, manufacturing, petroleum, chemicals, and financial services ... banded together with leading environmental groups to call for a firm nationwide limit on carbon dioxide emissions that would lead to reductions of 10 percent to 30 percent over the next 15 years.”<sup>69</sup> These leaders justified their action on sound business principles that would also serve the communities where their firms operate.

The idea of encapsulated interests combines the concept of mutual values with another major trust driver, authenticity. “There is a great need for the authenticity of the corporation,” a panelist stated. “If your organizational values are alive in the firm, they almost compel you to do things not expected or required.”

Authenticity is critical for overcoming conflicts. Another panelist said, “Many activists, NGOs, and other stakeholder groups want dialogue with companies. But they also want companies to understand the nature of the dialogue process, which is based on listening to one another’s concerns and exhibiting a willingness to make changes in practice based on this dialogue.”

“It is important to recognize that conflicts among stakeholders are not endemic,” one panelist said. “They are most pronounced at a certain point in time, but they tend to eventually disappear.” In other words, where shared values can be identified and authentic dialogue established, there is good reason to believe that real progress can be made with respect to building trust and creating value efficiently.

Business’s ability to build public trust depends on having its concern with public interests and values perceived as genuine and not as forced or feigned. According to a recent survey conducted by the Arthur W. Page Society, many CEOs believe that “communicating their company’s values ... has become absolutely essential.”<sup>70</sup> Trust takes a long time to build, but it can be lost quickly in dramatic cases such as scandals. Trust can also erode slowly around trigger issues that raise concerns about a party’s integrity. Developing a more fine-grained understanding of trust dynamics can help leaders take action on trigger issues before they reach a tipping point.

When people begin to regularly use moral language when

speaking about a business issue, it is a red flag, indicating that concerns around the issue have the potential to jeopardize public trust in business on the broad level of identification. As our panels noted, in recent years, for example, the language around executive compensation has moved from terms like “excessive” and “overly generous” to overtly moralistic language such as “obscene” and “immoral.” One panelist stated that “executive compensation has been like a huge tsunami for the business community—CEOs can hardly even speak about compensation anymore.”

A recent survey by the Boston College Center for Corporate Citizenship, conducted prior to the global economic crisis, reports that 79 percent of executives cited “excessive CEO pay” as a factor leading to “growing distrust of corporations.”<sup>71</sup> More recently, bonuses paid to employees of financial firms receiving government assistance, including Merrill Lynch and AIG, have produced a major public outcry and political firestorm. If executive compensation is or becomes a driver of public trust in business at the level of values identification, it may have the potential to influence public opinion on a broad range of business issues—including issues that managers and observers with business expertise would view as having little or no connection to compensation.

If power becomes a predominant lens for interpreting the motivations and actions of another party—as seems to be the case with how the public perceives executive compensation—mutuality based on identity can become threatened. In such cases, the middle ground—institutions or forums where company or sector interests and social interests meet—may be viewed more as a battlefield than as a place where interests are united, and trust is threatened due to fears that in such instances unequal power can trump perceptions of fairness.

### Balance of Power

Balance of power is defined by Merriam-Webster as “an equilibrium of power sufficient to discourage one nation or party from imposing its will on or interfering with the interests of another.”<sup>72</sup> In an era when many nations have been supplanted by corporations on lists of the largest economic entities, the trust survey data cited above seems to indicate that business and its various mediating institutions have failed to convince a majority of the population that business has the public’s interest at heart and that business does not operate simply by its own rules or serve its own interests. According to one panelist, “People are tired of hearing about ‘fiduciary responsibilities’ that only indicate less powerful stakeholders get hurt and more powerful (and richer) ones benefit.”

“Public trust in business” roughly describes the level and type of vulnerability the public is willing to assume with regard to business relations. A large portion of the public, however, believes that the majority of its vulnerability in business relationships is

not voluntary but results from a sizable power imbalance that enables executives and companies to assume far less risk than the average person. See Table 4. Given practices “like abruptly leaving communities that depended on the jobs a company provides ... combined with the extraordinary high CEO compensation,” said one panelist, “it is not hard to see that businesses—particularly very large, global businesses—would not be trusted.”

The public’s sense of “corporate-political” corruption and the perceived influence of special interests at the expense of the public welfare are further indicators that a sector of society believes there is a current power imbalance. For example, 58 percent of individuals who responded to a 2005 poll agreed with the statement that “big business has too much influence on the president.”<sup>73</sup> In another survey from 2005, 59 percent of respondents reported they were “somewhat dissatisfied” or “very dissatisfied” with the size and influence of major corporations.<sup>74</sup> Another survey from 2003 reports that 77 percent of the American public agreed or mostly agreed that “there is too much power concentrated in the hands of large companies.”<sup>75</sup> A disconnect exists between the organizations that drive the economy and the public which believes that business occupies the moral low ground.

This can lead to a crisis where many members of the general public view themselves as powerless figures in a rigged game—one in which the institutions meant to serve the public can be “bought off.” As one panelist noted, the post-Vietnam War

They mentioned articles making claims such as, “Hurricane Katrina brought out the worst in Washington and the best in business.”<sup>76</sup> Whether corporate power is viewed positively or not depends largely on context. While there are indications of anxiety around corporate power with respect to political influence, this is not a hard-and-fast rule. Many people view corporate power applied to social problems in a very positive light. Indeed, sometimes it is viewed as the only practical alternative. As Ray C. Anderson, founder and chairman of Interface, Inc., said in a recent speech, “The Institution of business is the only one large enough and wealthy enough to solve a large scale environmental crisis.”<sup>77</sup> Others have argued that emergency situations, such as the global economic crisis, are so large that they can only be resolved through the mutual efforts of business, government, and private citizens.

Negative experience with particular companies can reinforce a view that many firms focus on profits at the exclusion of public concerns. Public institutions and business, however, are not monolithic entities that are impervious and self-enclosed. The ground rules for business are not simply determined by powerful combatants who wage battle on a middle ground to which the public has no access.

Given the prevalent fixation with short-term profits, it is not surprising that the public often fails to see that at the heart of the value creation process is a deal among various stakeholders (as shown in the inner circle of Figure 4).

Members of the public can choose to participate in efforts to make business or a particular firm better through a growing variety of channels. And public participation is no longer limited to creating political pressure during crises situations. Even though every party may not have equal power in this deal, it is not simply a rigged game.

The balance of power has been undergoing tremendous shifts in recent years, largely due to the Internet and the emergence of broadly accessible communications tools, both of which are creations of business.

As a recent Arthur W. Page Society report stated, this “democratized access to information production, dissemination and

consumption ... [is] overturning the corporation’s traditional ability to segment audiences and messages and to manage how it wishes to be perceived.”<sup>78</sup>

A broad range of actions is open to stakeholders and mediating institutions. Additionally, mediating institutions serve as a middle ground—they are potential vehicles of change, mutual-ity, power balancing, and conflict resolution. They also exist to serve the crucial role of uniting public and business interests—which includes responsibilities for proactively challenging faulty perceptions and rejecting harmful blanket characterization of either party. If they fail at this task, they will cease to exist.

Balance of Power	
<b>Effective Forms:</b>	<i>Vulnerability is partially voluntary and shared by parties.</i>
<b>Trust Breakers:</b>	<i>Particular stakeholders perceive themselves as powerless. Abuses of power by any party. Perceived hypocrisy.</i>
<b>Reported Progress:</b>	<i>Companies responding to pressure from NGOs and becoming more transparent about their activities. Communications tools empower all players to have a voice.</i>

TABLE 4. Balance of Power

worldview that business is “promoting a military-industrial complex that saw profits for business in war” is the bleakest version of this narrative. Its adherents believe it is common practice for monetary and political capital to be traded by politicians and business leaders in the form of cash and favors. Political scandals such as those involving Illinois Governor Rod Blagojevich and Hartford Mayor Eddie A. Perez reinforce this negative narrative.

There are also, however, highly positive public views of corporate power. For example, several panelists mentioned the generally positive notice that corporate behavior elicits during national crises such as September 11, 2001, or natural disasters.

Mediating institutions connect stakeholder trust to public trust and they connect public interests and values to company and sector interests and values. As multiple panelists indicated, the emerging role of NGOs has become more critical in the context of change brought on by rapid globalization. They have created credible third parties—often issue- or stakeholder-based—who speak for various publics in ways that other groups do not. Sometimes they act as a proxy for institutions whose traditional mediating role with regard to furthering public interests is in question, and at other times, they quickly respond to emerging needs.

As one corporate panelist noted, NGO activism is one of many “opportunities in the new reality to recognize and fix real problems. We are getting tons of free consulting from customers, suppliers, citizens of communities—if only we realize it as such and not as a headache.” Having authentic dialogue with stakeholders and mediating institutions is a leading way in which companies and other stakeholders can assess and proactively begin to address power imbalances that threaten trust.

### Trust Safeguards

Trust safeguards are an important mechanism for balancing power. They are legal compliance mechanisms that promote fairness in business relations via punitive damages for bad actors and/or reparative measures—such as civil suit awards—for those harmed.

In recent years, with the proliferation of widely accessible communications tools, NGOs have emerged as a prevalent form of trust safeguard marked by an agility that is sometimes lacking in more traditional and bureaucratic mediating institutions such as governments.

The Trust Panel noted that with their greater visibility and influence, the posture of many NGOs has largely shifted from agitation to a problem-solving mode. “Many NGOs now partner with companies,” said one panelist, “because they recognize that the fortunes of each stakeholder in a business are integrally tied to those of others.”

In particular, some NGOs are being called upon by executives to serve as external monitors and contributors to social responsibility and global citizenship reports. One could see them as trust safeguards. “Companies need to forge partnerships with their constructive critics,” said one panelist. “By this means, companies will gain credibility in this key area” for public trust.

Along with helping to balance power, trade organizations, NGOs, and other mediating institutions can enhance trust by creating tangible safeguards that promote fairness in business relations and have punitive consequences for malfeasance as in Table 5. One panelist suggested that NGOs have grown in power with respect to other mediating institutions because

many people believe “NGOs are the only check and balance in a world where people do not trust government to fix things.”

Public trust rests on a perception of the appropriate balance between voluntary vulnerability and legally mandated (or quasi-legally mandated) and enforced safeguards. These safeguards must ensure fairness, honesty, promise-keeping, and reparation if these conditions are not met and trust proves to be undeserved. The optimal balance may be different depending on the situation, historical background, anticipation of future events, and the changing power relationships of the players.<sup>79</sup>

Because the public and business are composed of many parties and relationships, public trust and systemic risk cannot be managed completely by static, one-stop approaches such as legislation. Furthermore, for guidelines to be effective, they must be sufficiently granular and must trigger follow-up and measurement.

Trust Safeguards	
<b>Effective Forms:</b>	<i>Tangible safeguards that mandate fairness and reparations. Efforts that encourage internal stakeholders to challenge firms to live their stated values.</i>
<b>Trust Breakers:</b>	<i>Safeguards that offer inadequate protection to a particular party. Overly strict mandates that harm innovation by limiting opportunities and potentially contributing to excessive mistrust.</i>
<b>Reported Progress:</b>	<i>Industry/sector attempts to self-regulate. Companies partnering with NGOs to monitor social responsibility and corporate citizenship reports. Enacting Sarbanes-Oxley. G-20 Summit agreement on principles for regulatory reform.</i>

TABLE 5. Trust Safeguards

Panelists indicated, however, that the potential shortcomings of broad-brush regulatory approaches are no excuse for inaction on the part of business leaders, mediating institutions, and stakeholders. Trust in business is paradoxically increased by all parties entertaining some degree of mistrust and recognizing the need for safeguards. Restoring public trust requires all parties, working together, to find the optimal balance between mandated safeguards and voluntary vulnerability so each party can achieve its mutual interests efficiently.

Trust safeguards can be established on a number of levels. For example, firms can check their own controls and compliance mechanisms by incorporating processes whereby internal stakeholders can openly challenge a firm to live its stated values without fear of reprisal. Johnson & Johnson’s celebrated “challenge meetings” are a well-known example. Firms can also choose to invite external critics to have a voice in their

communications, as did *The New York Times* in the wake of the Jayson Blair scandal. The paper created the new, independent position of Public Editor, whose role is to critique the quality of *The New York Times's* reporting. The Public Editor's column is not subject to editorial review.<sup>80</sup>

Business and its stakeholders can also work together on efforts that have broader impact. For example, a number of companies in the outdoor industry have banded together to develop sector-wide operational guidelines on environmental issues.<sup>81</sup> Business can also work with stakeholders and regulators to proactively support public policies that enable it to benefit society while minimizing risks and harms—and create appropriate penalties for those who do not.

Another well-known example of sector self-regulation occurred in 1986, when a group of 32 defense contractors established the Defense Industry Initiative (DII) in the wake of scandals involving sector firms.<sup>82</sup> The DII prescribed a detailed program of ethics education and voluntary compliance measures to which all members of the initiative subscribed.<sup>83</sup>

Panelists conceded that some of the negative “narrative” about business appears to be justified. Given the phenomenon of contagion, however, this translates into an overall negative public perception of business that is problematic for a number of reasons—not least of which is the danger that this negative perception can become self-fulfilling and ultimately cause some of the bad ethical behavior that we in fact observe.<sup>84</sup> As Sumantra Ghoshal noted, “A management theory—if it gains sufficient currency—changes the behaviors of managers who start acting in accordance with the theory.”<sup>85</sup> The idea that

business is inherently immoral or amoral harms business and its stakeholders, including the broader public. Positive change is far more likely to issue from constructive criticism that indicates a new way forward than from an over-simplistic, unchecked skepticism that glosses over moral complexity.

In summary, public trust in business or in a business is the degree to which the public believes that business will act in a particular manner because business has encapsulated the public's interest into its own. The public trusts business or a business to produce useful, safe, and reliable goods and services—in a context where mediating institutions help bridge the interests and values of business and society, balance the power among parties, and offer some protection against risks and misbehavior via mistrust mechanisms—because business is an enterprise that is most successful when it incorporates social values not only in the products and services it creates, but also in its daily practice.



### III. Recommendations for Business Leaders

By understanding the importance of the three core dynamics of trust—i.e., mutuality, balance of power, and trust safeguards—certain businesses have consistently taken actions that generate trust. Despite the current knowledge gaps in the dynamics of trust—and the related need for further research—there are a number of actions that business leaders can take right now to increase trust in their firms and their sectors and, perhaps, improve broader social views of business.

#### **1. Create a set of values that define and clarify what the enterprise and its people are at root, and work to ensure that these values are adhered to consistently across your enterprise.**

Globalization and digital networking trends have made global enterprises more diffuse, while at the same time they are allowing the rise of strong new stakeholders, who are evaluating corporate behavior, demanding transparency, and are able to influence an organization's reputation far more than advocates of the past. Enterprises must focus not only on claiming or codifying a set of beliefs and operating principles, but on being consistently true to them in all their behavior and relationships. Otherwise, they will be seen as unreliable and untrustworthy.

This must be pervasive throughout the organization and among its people. Indeed, trust that is grounded in values finds its most immediate embodiment in the firm's employees—in their daily actions, behaviors, and relationships. It spreads outward from there. The outsourced service center in India, the supplier in China, the sales office in Rio, all must embody the enterprise's beliefs, values, operating principles—that is, the brand—in all that they do. This can be accomplished only by building a strong culture around shared values. As is clear from our earlier discussion about the basis for trust—how it depends on a perception of a relationship with “people like me”—values are not simply about ethics, but also about identity. Values can and must be true to the firm's core, its brand, and *raison d'être*.

We further recommend that leaders:

- Work to create a clear mission and set of values that include a commitment to ethical conduct and creation of social value,
- Ensure that the mission and values are fully understood by all stakeholders, and
- Engage employees in regular, open dialogue to ensure that the firm and all its business partners are living these values consistently in everything they do.

#### **2. Build and manage strong relationships based on mutual trust with mediating institutions.**

Myriad new stakeholders and mediating institutions are emerging that have expertise and knowledge about the enterprise. These new stakeholders are using new media to wield influence that profoundly impacts operations, brands, reputations, and the permission of established enterprises to operate. In short, they can build or undermine trust in companies and in business. The path to building mutuality, balance of power, and trust safeguards with these stakeholders involves, first and foremost, authentic dialogue. Authentic dialogue includes listening as well as talking and implies a willingness to change in response to reasonable points made by outsiders. It does not require change in response to unreasonable demands nor the establishment of long-term relationships with organizations that show an unwillingness to engage constructively and compromise when interests are not fully aligned.

Engaging stakeholder and NGO activism as “free consulting” can potentially benefit your firm. A company can partner in order to change the paradigm. It can reframe the role and interactions of mediating institutions from a battleground to a roundtable, united by common themes of serving public interests and creating value. It can lobby on behalf of actions that meet these basic criteria.

All parties in our increasingly integrated global economy need to recognize that disagreements among stakeholders are not permanent. They tend to be resolved over time. It is time for business to view the creation of mutuality among stakeholders as a core management discipline and responsibility.

Effective leaders will avoid treating their networks of relationships as if they were a web of zero-sum games—repeatedly trading off the interests of one stakeholder in favor of the interests of another.

We further recommend that leaders:

- Identify and engage in meaningful dialogue with responsible mediating institutions that have legitimate

interests in your firm and industry and influence on your other stakeholders, and

- Create partnerships with groups that can enhance the value-creating activities of the firm.

### 3. Embrace transparency.

With globalization and Web 2.0, new stakeholders with significant expertise who demand to know as much as they can about the inner workings of business are now equipped to act in a variety of new ways. Rather than trying to hide from responsible scrutiny, businesses should embrace it and welcome transparency—and in the process earn respect and trust at levels never before possible.

Companies should be willing to offer nonproprietary information about policies and practices, along with explanations, in order to help both potential critics and potential allies understand what they do and why. They should measure and communicate transparently their company's social impact in a way that allows for an "apples to apples" comparison among firms. And they should collaborate with peers and critics to develop reasonable metrics for their business and sector.

Perhaps simplest to say but most difficult really to do, businesses should trust their employees to engage with the outside world. Companies should enable their people with new media skills and tools.

Trusting employees to use the same tools stakeholders and mediating institutions use empowers them to act based on the firm's values and to build relationships. Mediating institutions like to get to know employees whose thoughtful engagement with them can lead to trust and respect. Likewise, new media tools can be used within the organization as a way of building the firm's values. Open dialogue internally and externally can be one of the firm's core values. And in a very practical sense, since employees are increasingly seen as a company's most credible spokespersons, it makes sense to empower them to represent its values and its brand. This helps shift the reputational balance of power in the company's favor.

We further recommend that leaders:

- Be willing to disclose meaningful, nonproprietary information about the firm's business, public policy, and lobbying policies and practices.
- Embrace the notion that greater transparency can lead to better understanding of a firm's good intentions and to more informed engagement with mediating organizations and other stakeholders.

### 4. Work within your business sector to build trust in the sector.

Recognize that, like it or not, all companies matter to each other, and your company's reputation will be grouped with the reputation of other firms. When an entire industry sector is held in low regard, it's difficult for even the most enlightened and responsible firm to stand out.

Issue-based organizations often target the most visible brand in a sector as a means of using limited resources to affect industry-wide practices. Leaders of less visible brands that are not in the spotlight should not wait to see how events play out before entering a dialogue that is likely to have profound impact on their business.

Companies should work with other sector leaders to consider what practices or reforms might help the sector better serve its stakeholders and society. This not only builds trust, but also protects public-minded firms from unprincipled actions by renegades.

We further recommend that leaders:

- Develop sector metrics that indicate how firms are creating value relevant to stakeholders, and
- Establish trust safeguards for the sector by voluntarily adopting standards that protect the public interest and/or embracing reasonable regulation.

*Trusting employees to use the same tools stakeholders and mediating institutions use empowers them to act based on the firm's values and to build relationships.*

### 5. Reinvest in the trustworthiness of your firm by making a commitment to enhance the core contribution the firm makes to society.

Forward-looking leaders increasingly recognize that value creation is a moral enterprise in which the public has an interest. This basic understanding should be operative from the board of directors through all levels of management to frontline workers. Leaders should continually ask the questions: Why does the world need this enterprise? What is unique about this organization? What need do we fulfill that no one else can?

The key is to view societal trends as business opportunities connected to the core value-creating purpose of the firm. Being socially responsible is not about offsetting negative impacts—such as planting trees because you pollute—but about taking actions that are good for business (including expanding a firm’s freedom of action) because they create value for a broad spectrum of stakeholders.

Companies in healthcare can seek to improve the effectiveness of the health care system for all citizens through their products, services, policies, and initiatives. Firms in energy, mining, and manufacturing can source and produce materials with a commitment to environmental sustainability. Firms in the financial sector can adopt an interactive approach with governments to help identify and minimize systemic risks such as those that resulted in the global economic crisis. All firms can adhere to fair labor standards and seek to alleviate poverty and injustice through innovative approaches to business.

We further recommend that leaders:

- Ensure that all managers understand why and how the core contribution of the firm to society creates trust in their firm, especially among employees, customers, and investors,
- Make a commitment to create social value in the public interest through the firm’s core contribution to society, and
- Identify and communicate how an engagement of social issues has or might impact the value proposition of the firm through innovative products and services.



## IV. Successful Examples of Organizations Building Trust

Numerous examples exist depicting companies and industries that have built trust by following the business leadership recommendations contained in this report.

### 1. Aetna - The Chairman's Initiatives

When John W. Rowe, M.D., one of this report's panelists, became Chairman and CEO of Aetna, he inherited a company that had become a symbol of all that was wrong with managed care—restrictive policies seen to be designed to save money by allegedly denying needed healthcare. Dr. Rowe set out to change those policies, settle lawsuits, and build strong relationships with physicians and medical centers. He began by leading the company to adopt a mission statement which included improving the healthcare system and a set of values that included building strong relationships with ALL stakeholders.

Dr. Rowe reached out to physicians, with whom Aetna had battled over managed care policies, to build collaborative approaches to improving the quality and efficiency of healthcare for Aetna's members. He settled class action lawsuits brought by physicians promising to make Aetna's claims payment policies more transparent and agreeing to amend those policies in response to reasonable arguments from a physician advisory board.

Dr. Rowe also created a series of Chairman's Initiatives in which Aetna proactively took stances that were viewed as being in the public interest. One example was the Chairman's Initiative on Genetic Testing. Aware that both physicians and patients were leery of genetic testing that might affect eligibility for insurance, and concerned that this fear might prevent testing that could improve healthcare for millions of Americans, Dr. Rowe announced that all Aetna health insurance policies would cover genetic testing where results may be expected to affect the course of treatment. He also pledged that Aetna would not use genetic testing results in any coverage determinations and would protect the privacy of genetic information.

Simultaneously, Dr. Rowe called on the health insurance industry to adopt similar guidelines and support federal legislation making these provisions mandatory. Subsequently, both the industry and Congress adopted versions of the Aetna genetic testing guidelines. By focusing on the core contribution of the company to society and building trust safeguards for the industry, Dr. Rowe improved trust in both his company and his sector.

The genetic initiative, coupled with the Chairman's Initiatives on care at the end of life, racial and ethnic disparities, and depression management, vaulted Aetna from worst to first in its sector in trustworthiness. Jessi Hempel and Diane Brady wrote in *BusinessWeek*, "The once notoriously stingy and fiercely unpopular company is now frequently cast as the country's most physician-friendly insurer."<sup>86</sup>

### 2. IBM - World Jam and Web 2.0

Over nearly a century, IBM has applied technology to solve business and societal problems. What has been consistent about the company is not any particular set of products, strategies, or business models. Those come and go. Rather, IBMers defined themselves through a core set of beliefs or values and a commitment to unending innovation.

IBM's innovation is not restricted to technology. For instance, one recent IBM innovation was WorldJam, a global intranet conversation lasting over 72 hours in 2001. During that period, more than 50,000 IBM employees offered suggestions regarding business issues facing the company. It was in many ways an exercise in culture change—encouraging employees to work together on behalf of clients and to make IBM itself more efficient and innovative.

In December 2005, IBM partnered with the United Nations's World Urban Forum and the government of Canada to enable a new kind of global dialogue. Habitat JAM involved approximately 39,000 participants from 158 countries. It resulted in hundreds of actionable items on urban sustainability, including ideas for "technology hubs" to give the urban poor access to meeting space and the Internet. In so doing, IBM applied its core value, "Innovation that matters—for our company and for the world"—to creating social value for potentially billions of people around the world who are striving to improve their lives and their environments.

Since then, IBM has become a leader in empowering its employees to engage in Web 2.0 dialogue through blogging and social networks. IBM believes its employees are able to generate trust by developing meaningful relationships with stakeholders.

IBM CEO Sam Palmisano sees a direct connection between IBM's commitment to social good and its ability to generate trust. "We do trusted work," he explains. "We work on human genome projects to come out with cures for breast cancer. We work on supercomputing that's figuring out where the avian flu is going to mutate and come up with the associated treatments .... as a company we can never break that bond of trust."<sup>87</sup>

### 3. General Electric - Ecomagination

Following 30 years of controversy surrounding GE's alleged dumping of PCBs into the Hudson River, GE's reputation as a trustworthy public citizen was damaged. Eventually, GE promised to invest a half billion dollars to dredge the Hudson.

Since then, GE has taken major steps to restore its reputation as a public-minded leader through a major commitment to environmentally-sound products that it calls Ecomagination.

The program puts into practice GE's belief that financial and environmental performance can work together to drive company growth, while taking on some of the world's biggest challenges.<sup>88</sup> GE has made its environmental push an integral part of its business strategy. It touts its jet engines and locomotives as the most energy-efficient available, and it has made a growing business out of wind turbines.

CEO Jeffrey Immelt has been widely quoted saying "Green is green," and his business results prove it: "Ecomagination is growing beyond our expectations, evolving into a sales initiative unlike any other I've seen in 25 years at GE," says Immelt.<sup>89</sup> Its entry into what were formerly niche markets, such as solar panels for domestic applications, is expected to drop costs for consumers and expand use of this green technology.

GE's leadership commitment on sustainability initiatives goes beyond its own core business activities and shows GE's understanding of the need to generate partnerships that advance trust in business more broadly. In February of 2007, GE and a host of other large firms—including Alcoa, BP, Caterpillar Inc., DuPont, Duke Energy, FPL Group, and PG&E Corp.—partnered with environmentalists to form what many described as "an unexpected alliance" with the mission of "persuading Congress that it's time to enact laws limiting the greenhouse gas emissions that contribute to global warming."<sup>90</sup>

GE's consistent focus on making the environment a centerpiece of its business is generating trust among key stakeholders and the broader public.

### 4. Nike - Corporate Responsibility Reporting

In 2005, after enduring years of criticism from human rights and labor organizations, apparel giant Nike released its landmark FY2004 Corporate Responsibility Report, which for the first time revealed the names and addresses of the 700 factories worldwide where 650,000 workers manufacture Nike products.

The 108-page report detailed the results of several factory audits and admitted to "widespread problems"—including the stark admissions that independent auditors had "found cases of 'abusive treatment,' physical and verbal, in more than a quarter of its south Asian plants" and that a quarter to half of Nike's Asian subcontractors did not allow employee access to toilets or water.<sup>91</sup>

Nike did not simply identify problem areas—the company publicly identified measurable goals and steps for achieving them, including devoting 90 full-time employees to monitoring the conditions of its overseas factories. The company engaged multiple stakeholders in developing its report, establishing an independent "Report Review Committee—comprised of volunteer experts from the non-governmental organization, academic, trade union, investor and business communities."<sup>92</sup> It also joined efforts with those such as the Fair Labor organization to help promote better working conditions across the apparel industry. In so doing, Nike not only aligned its core business processes with social value creation, but also worked to build meaningful relationships with a wide variety of stakeholders and build trust safeguards across its industry sector.

Since issuing this report, Nike has been widely recognized as an industry leader in the area of corporate responsibility, even by some of its most vocal former critics. In 2005, 2006, and 2007, Nike was recognized by *Business Ethics Magazine* as one of the 100 Best Corporate Citizens, and the firm received the Ceres-ACCA North America Award for Sustainability Reporting in 2005.<sup>93</sup>

Nike's report demonstrated a mutual concern with global working conditions; helped to balance power by transparently sharing information about its subcontractors' factories with concerned parties; and created sensible trust safeguards by including diverse stakeholders and independent experts throughout the process.

### 5. AARP, Business Roundtable, and SEIU - Divided We Fail

In January 2007, three of the nation's leading consumer, business, and labor organizations—AARP, Business

Roundtable, and Services Employees International Union (SEIU), which together represent over 50 million Americans—launched a joint effort to attain “affordable, quality health care” and to ensure “long-term financial security” for all Americans.<sup>74</sup>

This national effort—entitled *Divided We Fail*—encompasses grass roots efforts such as town meetings, an advertising campaign in national media outlets, and online activities designed to “engage the public, business and elected officials in the debate, encouraging public leaders to offer solutions.”<sup>75</sup>

Despite previous differences involving public policy, these organizations formed an alliance based on their mutual interest in addressing the national health care crisis. As SEIU President Andy Stern explained, the groups are united by a “shared belief that it will be a far greater America when we get affordable health care for all Americans.”<sup>76</sup>

Business Roundtable—whose members are chief executive officers of leading U.S. companies with a combined total of \$5 trillion in annual revenues—is focusing its resources and visibility on an issue of critical importance to both business and the least powerful members of society, including the 47 million Americans who lack health insurance. These actions foster mutuality and help to balance power by focusing on shared values and interests. Since the launch, more than 80 other organizations, including the American Academy of Family Physicians, the National Farmers Union and the Human Rights campaign, have endorsed the *Divided We Fail* platform.<sup>77</sup>

## 6. The Obama Administration - Building Trust by Activating Core Values

In Barack Obama’s Inaugural Address, the new President, who campaigned as the candidate of change, called for a return to fundamental values. It turns out that the change President Obama envisions involves old things: “... those values upon which our success depends—honesty and hard work, courage and fair play, tolerance and curiosity, loyalty and patriotism—these things are old. These things are true. They have been the quiet force of progress throughout our history. What is demanded, then, is a return to these truths.”<sup>78</sup>

If President Obama can rally Americans and the American government to renew these fundamental values, it could help forge a broad consensus on the critical issues facing the United States in the midst of the global economic crisis.

Core values are best activated through building and managing integrated multi-stakeholder relationships.

In the transition period, the Obama Administration reached out to different stakeholders, sending strong signals that the President wants a genuine dialogue with constituencies that are not his natural supporters. His informal dinner with conservative columnists, his regular conversations with Republican Senator Tom Coburn of Oklahoma, and a formal dinner honoring John McCain have defused some of the concern among conservatives about President Obama’s liberal Senate voting record.

This aggressive outreach has not been confined inside the Beltway. During the primaries and the general election, the Obama campaign’s use of new media to engage and mobilize citizens has revolutionized campaigning and may serve to change the nature of the American people’s relationship with their government. As *TIME Magazine* reported: “Three million people have given [Obama] money; 2 million have created profiles on Obama’s social-networking site. More than 1.2 million volunteered for the campaign, which has trained about 20,000 in the business of community organizing.”<sup>79</sup> Perhaps even more importantly, the President’s web supporters and online organizers feel an empowerment that has created an ongoing commitment.

In the post-election period, *TIME* reported, “about 4,500 house parties were held around the country, and a total of 550,000 people responded to an online survey asking how they would like to contribute their time and energy over the coming years. At about the same time, nearly 5,000 groups responded to a call from Obama’s transition team for suggestions on the best ways to tackle health-care reform. More recently, some 100,000 people participated in an interactive feature on the transition website Change.gov, which allows people to vote on questions they want Obama to answer.”

This is the same kind of engagement and commitment that companies investing in social media seek. By recommitting to old values, building relationships with disparate stakeholders, and empowering people with new media skills, President Obama has taken major steps toward building trust in his Administration and in the country. In addition, he has promised a new era of transparency, making government processes more open and accessible. These actions ensure neither immunity from controversy and criticism, nor success. But, by seeking to build relationships of trust, President Obama is creating an opportunity for leaders in both major political parties to work together to make the best decisions for the American people in this time of crisis. Any global enterprise wishing to achieve its objectives ought to consider doing the same.

## V. Next Steps—Closing the Knowledge Gaps and Preparing for New Challenges

Many crucial questions about public trust in business cannot be answered without further research. Current knowledge gaps and profound changes in the world require new frameworks. Currently, we cannot even measure the public trust impact of the global economic crisis or scandals and reform efforts beyond simply noting the proliferation of headlines or increased regulation.

At the most basic level, it is critical to have such measures in place before future crises or reforms occur. In order to respond effectively, leaders need the ability to assess the impact of new events and conditions on trust and business, so as to increase trust on the level of the firm, the sector, and business at large.

Concerned businesses, mediating institutions, and stakeholders, all working together, can build this knowledge base efficiently. And the Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society are prepared to undertake this collaborative effort. The hallmark of the Institute is bringing together leaders from business, academia, and related areas to impact practice. The Arthur W. Page Society is founded on the premise as articulated by its namesake that “real success, for both big business and the public, lies in large enterprise conducting itself in such a way that the public will give it sufficient freedom to serve efficiently.”

These attributes well position our organizations to address the leadership challenge of public trust in business.

The Institute and the Arthur W. Page Society are launching the Project on Public Trust in Business, an ongoing effort to engage other leading organizations in developing and implementing a long-term strategy to build and sustain public trust in business. Specifically, we will work together to:

- Organize a high-level working group of experts representing major stakeholders, including business, academia, government, employees, consumers, investors, the media. They will develop a set of principles for effective business regulation in anticipation of regulatory restructuring that is inevitable in the wake of the global financial crisis. The working group principles will aim to shape a new regulatory structure that reflects the interests and values of the various stakeholders in the financial system.

- Conduct a series of research studies that will develop a deeper understanding of the dynamics that impact public trust in companies, in the institution of business, and within the roles that dimensions of trust (good will, competence), stakeholder relationships, and mediating institutions play in this process. The aim of this research is to better enable executives to benchmark the trust factors of their firms and develop strategies and goals for building and sustaining key trust relationships in ways that advance value creation.

- Promote a dialogue between thought leaders in the areas of trust and business to advance game-changing solutions with regard to practice and the public policy process.

- Assemble leading academics in the area of trust. The goals for this gathering are simple but bold: 1) to begin to fill the sizable knowledge gap in our understanding of the dynamics of public trust in the institution of business and its social and economic impacts; 2) to initiate a conversation among academic thought leaders that will help deliver actionable knowledge to practitioners; and 3) to set and shape the research agenda in public trust for the next decade.

- Devote increased attention to the issue of public trust in our ongoing work. We will engage business leaders, mediating institutions, and key stakeholder representatives in a variety of forums—conferences, seminars, publications, and research—to share learnings and leading practices.

Even in the best of times, the dynamism of trust requires continual monitoring and rebalancing as economic and social situations change. Today, more than ever, the challenge of restoring trust in business is threatened by severe shocks and imbalances in the conduct of business. Mistrust is reinforced by economic crises, by new scandals in business, and by contagious resentment of business, which only leads to less cooperation.

The Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society are committed to a long-term, extensive effort to improve business practices and to promote a social narrative of business that both reflects reality and addresses the changing features of the public trust landscape.

There is a well-established correlation between high-trust societies and social and economic prosperity and security. All parties have a stake in undertaking this effort and ensuring its success.

Creating and sustaining public trust in business is one of the great challenges of the global age—a challenge well worth commencing due to the enormous

opportunity it presents for unleashing human value-creating potential. To yield meaningful progress will require great effort and the sustained engagement of multiple communities working toward a common goal. We welcome the participation of other leaders and organizations as we move forward in our goal to provide managers, stakeholders, and institutions with actionable knowledge for building trust in their firms, sectors, and in business.



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## About the Business Roundtable Institute for Corporate Ethics

The Business Roundtable Institute for Corporate Ethics is an independent entity established in partnership with Business Roundtable—an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees and \$5 trillion in annual revenues—and leading academics from America's best business schools. The Institute, which is housed at the University of Virginia's Darden School of Business, brings together leaders from business and academia to fulfill its mission to renew and enhance the link between ethical behavior and business practice through executive education programs, practitioner-focused research, and outreach. More information on the Institute can be found at [www.corporate-ethics.org](http://www.corporate-ethics.org).

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## About the Arthur W. Page Society

The Arthur W. Page Society is a professional association that is dedicated to strengthening the management policy role of the chief public relations officer. The membership consists primarily of chief public relations and communications officers of Fortune 500 corporations, the CEOs of the world's largest public relations agencies, and leading academics from the nation's top business and communications schools who have distinguished themselves teaching corporate communications.

The Page Society is upheld by management concepts, known as the Page Principles, which have been tested for more than half a century and have earned the support and respect of chief executive officers throughout the country.

It is named in honor of Arthur W. Page, who served as vice president of public relations for the American Telephone and Telegraph Company from 1927 to 1946. He was the first public relations executive to serve as an officer and member of the Board of Directors of a major public corporation. He, more than any other individual, laid the foundation for the field of corporate public relations. More information on the Society can be found at <http://www.awpagesociety.com>.

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