



PUBLIC TRUST IN BUSINESS

Edited by

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

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Public Trust in Business

Public trust in business is one of the most important but least understood issues for business leaders, public officials, employees, NGOs, and other key stakeholders. This book provides much-needed thinking on the topic. Drawing on the expertise of an international array of experts from academic disciplines including business, sociology, political science, and philosophy, it explores long-term strategies for building and maintaining public trust in business. The authors look to new ways of moving forward, by carefully blending the latest academic research with conclusions for future research and practice. They address core drivers of public trust, how to manage it effectively, the consequences of low public trust, and how best to address trust challenges and repair trust when it has been lost. This is a must-read for business practitioners, policy makers, and students taking courses in corporate social responsibility or business ethics.

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Preface: discovering new territory in public trust in business

Despite the importance of public trust in business, very little scholarly work has been written on this topic. While the literature on organizational trust – both interpersonal and interorganizational – is vast and growing rapidly – particularly in the field of management – much less academic research has been conducted on public trust in business as an institution. Based on top executives identifying trust in business as their biggest concern,¹ we held several seminars with executives, journalists, and governance experts during 2007, in both Washington, DC and New York, to seek their input and increase our understanding of their practical perspective on the crisis of trust in business. Based on what we learned, and with the further erosion of public trust in business with the onset of the global financial crisis, we issued both a preliminary report on the topic,² and convened the 2009 Ruffin Summit on Public Trust at the University of Virginia's Darden School of Business, which involved twenty-five top thought leaders on trust across a variety of disciplines. This volume includes papers presented at the summit, and other invited papers, to gather what we believe to be the best current thinking on the problem.³ The scholarship in this volume speaks in

¹ Business Roundtable Institute for Corporate Ethics, *Mapping the Terrain: Issues that Connect Business and Ethics* (May, 2004). Highlights of this survey are available online at www.corporate-ethics.org/pdf/mapping_terrain_business_ethics_2004.pdf.

² Roger Bolton, R. Edward Freeman, Jared Harris, Brian Moriarty, and Laura Nash, *The Dynamics of Public Trust in Business – Emerging Opportunities for Leaders* (Business Roundtable Institute for Corporate Ethics white paper, 2009). This report is available online at www.corporate-ethics.org/pdf/public_trust_in_business.pdf.

³ The editors of this volume are listed in alphabetical order as all three contributed greatly to this book which has been a team effort.

detail to this critically important topic, and raises a variety of questions that beg for further attention.

Part I of this volume focuses on public trust in business as an institution. In Chapter 2, Eric M. Uslaner analyzes data from multiple surveys of the US population to determine the extent to which the global economic crisis caused a reduction of trust in government and in generalized trust. Using these same data sets, he explores whether the economic crisis played a key role in support of the Tea Party movements, and whether these movements in turn lowered levels of trust.

In Chapter 3, Deepak Malhotra argues that the economic crisis of 2008 and the subsequent bail-out of "too big to fail" firms revealed that the dynamics of stakeholder trust have dramatically shifted. Stakeholder dynamics have changed, this chapter argues, due to two significant changes: the compartmentalization of action within organizations and the complexity of action among organizational actors. The former impedes trustworthy behavior on the part of organizations and the latter inhibits the ability of stakeholders to judge the trustworthiness of organizations. Malhotra examines the implications that this new trust environment has for business leaders and researchers, offering a set of proposals for improving how we manage trust moving forward.

Robert Bies, in Chapter 4, argues that current analyses of public trust in business fails to recognize that trust and distrust are two distinct phenomena that coexist side by side in the current state of affairs. Analyzing survey data, Bies demonstrates that distrust is a resilient phenomenon, which indicates that it is a critical factor for leaders who have responsibility for managing stakeholder relationships.

In Chapter 5, Kirsten Martin, Michael Pirson, and Bidhan L. Parmar explore the factors that govern public trust in business. This chapter employs the results of a factorial vignette study conducted by the authors to clarify the impact that various determinants – e.g., size of the company, industry sector, integrity, value congruence, etc. – have on public trust.

Chapter 6, by Karen S. Cook and Oliver Schilke, examines the role that three different forms of trust – public trust, relational trust, and organizational trust – currently play in economic affairs. The authors apply literature on relational trust from the field of medicine to show how this form of trust could create further value for business and argue that the shift to institutional footings for maintaining trust are inevitable in an era marked by dramatic change.

Part II of this volume explores critical aspects of public trust with respect to business organizations. In Chapter 7, Jared D. Harris and Andrew C. Wicks develop a theoretical model for understanding the relationship between public trust in business and trust in particular firm–stakeholder interactions. This chapter makes stakeholder theory a central position, assessing how issues of goodwill and competence are of varying importance to different stakeholders and the impact this has on public trust in business and in particular companies.

In Chapter 8, Roderick Kramer examines the concept of presumptive trust and the advantages this form of trust could have for building organizations that are more trustworthy and more trusting. Taking an inside-out approach, Kramer argues that efforts to build trust with the public must begin by building more trustworthy organizations. Kramer's proposed barometer for assessing the effectiveness of these efforts is the level of presumptive trust, "a 'background expectation' that animates action within an organization without conscious calculation or premeditation on the part of organizational members."

Paul Argenti argues, in Chapter 9, that while public trust in business has never been more challenged, it has also never been of greater importance. Argenti's chapter explores opportunities for building trust by examining multiple case studies that suggest particular actions in the area of reputation management which leaders can employ to deliver improved levels of trust in their companies.

In Chapter 10, Reinhard Bachmann and Edeltraud Hanappi-Egger examine the relationship between interpersonal trust and

institutionalized distrust within German and Austrian companies that operate under a two-tiered corporate governance system. This study shows how some level of distrust between the supervisory board and the executive board can limit the potential for negative impacts, such as corruption, which become more likely if there is too much trust between these two parties.

In Chapter 11, Rosalinde Klein Woolthuis, Bart Nooteboom, and Gjalt de Jong examine the role of third parties in trust repair via an empirical study of alliance managers in the high-tech sector. Such alliances are critical for innovation, and, thus, a crucial factor in remaining competitive. This study compares the impact of third-party involvement with other common inter-firm trust strategies, such as the use of contracts and legal haggling, to demonstrate which options are most likely to be effective for managers.

Chapter 12 by Laura Poppo and Donald J. (DJ) Schepker develops a conceptual framework for restoring public trust in the wake of organizational failures. The authors differentiate between organizational failures that are within the firm's control and those that are outside of the firm's control. Recognizing this difference and determining whether the violation is the result of incompetence or lack of integrity, this chapter claims, is critical for choosing an appropriate and effective response strategy.

Each of the chapters begins with an executive summary, composed by the editors, which highlights the particular situation, key questions, new knowledge and main lessons contained in each chapter. The book concludes with a final chapter by the editors which provides a brief overview of research areas of public trust in business that lie on the horizon. It is the editors' hope that this volume will serve as a catalyst for further research.