08-057

Unconventional Insights for Managing Stakeholder Trust

Michael Pirson
Deepak Malhotra

Copyright © 2008 by Michael Pirson and Deepak Malhotra

Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only. It may not be reproduced without permission of the copyright holder. Copies of working papers are available from the author.

Unconventional Insights for Managing Stakeholder Trust

Michael Pirson

Kennedy School of Government

5 Bennett Street

Cambridge, MA 02138

Phone: 617-301-0765

Email: mpirson@ksg.harvard.edu

Deepak Malhotra *

Harvard Business School

Baker Library, Room 471

Boston, MA 02163

Phone: 617-496-1020

Fax: 617-496-4191

Email: dmalhotra@hbs.edu

Submitted to *Sloan Management Review*

January 1, 2008

* Please address all correspondence to Prof. Deepak Malhotra.

Unconventional Insights for Managing Stakeholder Trust

Managers and executives in organizations invest a lot of time and energy trying to build trust with various stakeholders (e.g., customers, employees, suppliers, investors, etc.) Are these efforts paying off? Maybe not.

Employees that don't trust their organizations are less loyal, less motivated, and less productive. Customers who perceive a breach of trust are more likely to switch to a competitor. When trust is lacking in supplier relationships, more resources need to be devoted to contract enforcement and monitoring, the result of which is increased transaction costs. Organizations that lose the trust of their investors may be the quickest of all to perish. Clearly, managing stakeholder trust is an essential task for organizations. Because there are many different stakeholder groups, each with its own particular needs and perspective, this task can be quite difficult.

The good news: most organizations understand the need to manage stakeholder trust. We hear about steps taken to increase transparency, the adoption of open-door policies and 360-degree evaluations, strategies for brand management, customer retention programs, satisfaction guarantees, voluntary recalls, initiatives for corporate social responsibility, rethinking of "customers as partners", and other trust-building moves.

The bad news: most organizations don't really understand how to manage stakeholder trust effectively. In fact, our research suggests that many of the trust-building initiatives and approaches that organizations invest in may be of questionable value. Others may actually destroy trust.

One of the reasons managing stakeholder trust is difficult is that trust is multi-dimensional—and it is not obvious which dimension you need to focus on when dealing with any particular stakeholder group. Consider the following: You may trust your boss because she

expresses genuine concern for your well-being, or because she is a very competent manager, or both. Your boss may trust you because your values are congruent with hers, or because she can rely upon you to get your work done efficiently, or both. Your firm's investors may trust top management because they are perceived as having integrity, or because they have taken steps to increase transparency, or for some other reason entirely.

So which dimension of trust should organizations focus on? Should organizational decision makers build reputations for kind-hearted benevolence or fair-minded integrity? Which is more critical for building trust: managerial effectiveness or technical competence? When does value congruence matter? Are initiatives aimed at increasing transparency worth the effort?

Our own work has begun to analyze the relevance (if any) of each of these potential elements of trust. We've asked what matters—and to whom. In doing so, we have made some interesting and important discoveries regarding what works and what does not. In this article we leverage findings from our recent research on stakeholder trust to equip would-be trust managers with the insights they need to build and sustain high trust relationships with their various stakeholders.

Here we briefly focus on five somewhat unconventional insights:

I. Transparency May Be Overrated

The most recent era of distrust in American business was ushered in after Enron tumbled and a whole swath of business scandals followed. Most observers, including many public policy makers, concluded quickly that a lack of transparency was the problem. As a consequence, most of the proposed remedies have focused on increasing the availability of information to would-be vulnerable stakeholders: Sarbanes-Oxley requires companies to follow better reporting

standards; Regulation Fair Disclosure (FD) requires public companies to prevent selective disclosure to analysts and influential stockholders; Corporate Governance codes contain requirements to publish executive compensation packages.

Presumably, these remedies increase transparency and make it more difficult for corporate actors to engage in nefarious tactics that harm stakeholders. If so, they serve a very important purpose.

We find, however, that in terms of building stakeholder trust, transparency seems to have little relevance: whether or not companies disclose may have little effect on their perceived trustworthiness. In fact, transparency was the *only* factor we studied that did not affect trust for *any* stakeholder. What explains this?

First, consider that forced disclosure may actually reduce the *quality* of what is disclosed. While fair disclosure procedures ensure that every investor is provided the same information at the same time, there is some evidence that the quality of information shared has diminished since Regulation Fair Disclosure went into effect.[1] Some Wall Street observers complain that companies which used to willingly share sensitive information (to at least a subset of stakeholders) are now delaying or withholding important information. In addition, research by Brandenburger and Polak (1996) and others suggests that career concerns among executives can create perverse incentives in the face of financial disclosure: executives may focus more on managing the visible numbers (e.g., stock price, market share, etc.) than on strategic initiatives that executives believe will improve the long-term survival and profitability prospects of the company but which are not rewarded in the short-run.[2]

Second, *whether* information is disclosed may matter less than *what* is disclosed. For example, transparency regarding executive compensation may do little to build trust if it reveals

vast disparities between executive and worker pay. Fairness perceptions are crucial to building trust within organizations and seemingly oversized CEO pay packages make it difficult for employees to identify with management.[3] Especially when there is no perceived link between CEO compensation and CEO performance, fairness perceptions are breached and trust diminishes. Therefore attempts to building trust through transparency may backfire.

Finally, there is some empirical evidence that disclosure, far from being a remedy, may in fact exacerbate the problems it is supposed to fix. In a fascinating experiment inspired by recent accounting scandals, Daylian Cain, Don Moore, and George Loewenstein (2005) required a sub-group of participants playing the role of "adviser" to tell "clients" that the adviser has a vested stake in having the client believe that a commodity is of high value. The hope was that clients would subsequently discount the advice they received from advisers who had admitted a conflict of interest. What was the effect of disclosure? Advisers who were required to disclose their bias felt *more* comfortable exaggerating their estimates; after all, they reasoned, "I already told them I was biased." Worse still, clients perceived these advisers as *more* trustworthy because they had disclosed their conflict of interest. In other words, advisers would have been more truthful, and clients would have been more careful, if there had been *no* disclosure![4]

A vivid example of the disconnect between transparency and trust can be seen in the example of Porsche, the German luxury car manufacturer. Ever since the German Stock Exchange (Deutsche Börse AG) implemented new reporting standards in 2001, Porsche has refused to submit the required quarterly reports. Among the arguments Porsche has made is that quarterly reports would reflect badly on its highly cyclical business during slow quarters. Despite being excluded from the MDAX (mid-cap index) and facing threats of being de-listed, Porsche has refused to comply and continues to publish six-month and full-year results only.

Spokespersons for Porsche criticize Deutsche Boerse for placing more value on formal rules than on the quality of information revealed by a company.[5]

What has been the result of this standoff? Even though analysts were, at first, puzzled by Porsche's decision, they agreed that the company had proven itself to be a good long term investment.[6] Porsche incurred a significant drop in stock-price following the exclusion from the MDAX, (share prices dropped by 40% over the following 6 weeks) but the stock price quickly rebounded, returning to its pre-exclusion level within 4 months; it has steadily advanced to new heights each year since. Private investors named Porsche's CEO, Wendelin Wiedeking, the most popular CEO in 2002 despite (and perhaps because of) the conflict with Deutsche Boerse. Not only do investors continue to trust the company, but prospective employees do as well: Porsche remains among the most popular potential employers in Europe. One study finds that graduated engineering students place Porsche on the top of their employer wish list. [7] Other stakeholders concur: the general public consistently lists Porsche as one of the most reputable companies in Germany and customers worldwide reward Porsche with continuously rising profits at a time when many other car manufactures around the world see their profits declining.[8]

II. Integrity is Not Enough

Not surprisingly, we find that perceptions of honesty and integrity are crucial to trust for all stakeholders. However, for stakeholders that engage with the organization on a regular basis—we call them *high intensity* stakeholders—integrity is not enough. These stakeholders need to also perceive that the organization cares about the *individual*'s well-being. In other words, benevolence towards the individual, and not just good character, is critical.

A powerful example of this relates to the effect of product recalls on consumer trust. Whether it be due to E-coli bacteria in spinach or ground beef, exploding computer batteries, or short-circuiting devices in automobiles, close to 500 products were recalled in 2007 alone. Companies that recall defective products early and proactively (e.g., Mattel's 2007 recall of toys containing lead paint) are likely to be perceived as having greater integrity than those who deny or ignore the problem until a recall is forced onto them by public or governmental pressure.(e.g., Ford's 2000 recall of defective Firestone tires after several thousand accidents—more than 100 of them fatal). However, even some firms that issue voluntary recalls find that they have done irrevocable damage to consumer trust, whereas others walk away from the experience unscathed, or in some cases, with *enhanced* consumer trust. One factor that seems to distinguish high integrity firms that destroy trust from high integrity firms that salvage or build trust is the degree to which the firms signal a concern for the well-being of individual consumers.

Consider the case of Coca Cola in Europe. In early June, 1999, more than 240 people in Belgium and France reported intestinal problems after drinking Coke. The Belgian government banned Coke products for 10 days. Even though there was no clear evidence that Coke's products were causing these health problems, Coke decided to recall beverages from five European countries, seventeen million cases in total, making it the biggest recall in Coke's history. CEO Douglas Ivester publicly stated that the quality of its products is Coca Cola's highest priority: "For 113 years our success has been based on the trust that consumers have in that quality. That trust is sacred to us."[9] Coke swiftly assumed responsibility, apologized, and went as far as to cite two quality control problems (contaminated carbon dioxide and contaminated wooden pallets) as potential causes for the impurities. Although it was later found that the reported health problems were not caused by Coca Cola products, the company

demonstrated benevolence not just in word, but in deed: it offered to cover health care costs for anyone who had been affected by the incident and offered free products to each of Belgium's 4.4 million homes. Coke also engaged in a massive marketing campaign, sponsoring dances at over 90 locations, and giving away over 72.000 prizes in raffles. Coke thanked its customers more than ever for their loyalty[10], and by the beginning of August (less than 2 months after the incident), research indicated that core consumers of Coca- Cola products reported the same levels of intent-to-purchase as before the crisis had hit.[11] Trust had quickly been regained through a massive demonstration of concern. Three years after the scandal sales in Belgium were reportedly better than ever.[12]

Let's contrast this case with what happened when Coca Cola faced similar problems in India. In August, 2003, a report by an environmental group, the Center for Science and Environment (CSE), argued that Coca Cola and other producers of soft drinks were selling beverages containing high levels of pesticides. Despite having recently gone through the Europe experience, Coke decided to approach this issue somewhat differently: it focused on proving its integrity. Along with other soft drink producers, Coca Cola swiftly refuted CSE's claims, presented its own data to the public, accused the group of 'brandjacking' (attacking well-known brands to further their cause), and announced it would sue the agency. Throughout, there was a conspicuous absence of targeted concern (relative to the European experience) for the well-being of individual consumers. The result? Even though India's Health Minister questioned the validity of the methods CSE had used,[13] and even though governmental as well as independent research labs cleared Coca Cola from these allegations in the months and years that followed, the company was labeled a corporate villain that cared more about profits than public health. The Indian Parliament banned Coke products from its cafeteria, causing a huge public relation stir,

and the state of Kerala eventually banned Coca-Cola products entirely. Sales dropped by 30-40 % in only two weeks, leading to a yearly sales decline of 15% in 2003 (compared to prior annual growth rates of 25-30%). [14]

The loss of trust was still affecting Cokes' India business years later. In 2006, Coke reported continuously declining sales volumes and losses of the company far exceeded the investments made.[15] Coca Cola seemed to understand the need to rebuild consumer trust, but unlike in the case of Europe, they did not do so by benevolent actions; instead, they leveraged rational arguments and scientific data. Tom Mattia, Senior Vice President, Worldwide Public Affairs and Communications, defended Coke's strategy: "…our actions are guided by doing what's right for the Indian consumer. We believe our serious approach is bearing fruit by moving the discussion to our sound scientific findings, re-establishing consumer trust and enabling us to continue building a healthy business in India. [16]

This case demonstrates that being right and maintaining your integrity is not always enough, and that maintaining the trust of high intensity stakeholders (in this case, consumers), you also need to demonstrate concern for the wellbeing of individuals. Even Coca Cola's then CEO-India, Sanjay Gupta admitted that "the pesticide problem was a blow to Coke's goodwill in the country".[17] Coca Cola did, eventually, change strategy to demonstrate much needed concern: they started to partner with local communities and NGOs to deal with water problems directly and invited consumers to tour their bottling plants to see the process and safety standards for themselves (thousands took them up on the offer).[18] Had Coke dealt with these problems like it had done in Europe before, it might have more quickly reestablished trust.

Other organizations have learned that demonstrating benevolence towards high-intensity stakeholders is important not only after a misstep, but anytime stakeholders feel that their well-

being was not of concern to the organization. In July of 2007, Apple introduced its much anticipated product, the iPhone, and priced it at $599. Only two months later—sooner than anyone had anticipated—the price of the iPhone was lowered to $399. Early purchasers of the iPhone felt mistreated and sent angry emails complaining about unfair pricing strategies. In response, Apple CEO Steve Jobs issued an open letter to Apple customers. He first defended the price cuts as the right strategic move for Apple and justified the decision saying that substantive price cuts were standard in the technology industry—in other words, Apple had not acted unethically. However, he then acknowledged, Apple needed "to do a better job taking care of our early iPhone customers….Our early customers trusted us, and we must live up to that trust with our actions in moments like these." He then offered coupons (for Apple products) worth $100 to anyone who had purchased the iPhone at the higher price. In signaling a willingness to "share the profit" Apple had made from its customers, he sent a strong signal regarding Apple's benevolence and was able to maintain trust levels with his most ardent fans and customers.[19]

While honesty and integrity are the basis for stakeholder trust across the board, those stakeholders that interact extensively with the organization need to perceive authentic concern for their well-being to continue their trust. In other words, even well-meaning, ethically driven organizations can destroy trust if they are seen as being "fair but callous" when it comes to managing relationships with their most important stakeholders.

III. The Right Kind of Competence Matters

No one trusts the incompetent, but the kind of know-how demanded by stakeholders differs. In our research we find that *internal* stakeholders, such as employees and investors, look most for evidence of *managerial competence*: this gives needed confidence in the ability of

management to effectively control costs and lead its workforce in the effort to stay competitive and create value. External stakeholders, such as customers and suppliers, typically care less about managerial competence but much more about *technical competence*: the ability to produce goods and services of high quality and to deal effectively with the supply-chain.

Delta Airlines provides a vivid example of how even high levels of competence in one of these two areas—but insufficient competence in the other—can lead to stakeholder distrust and organizational failure. Delta is widely hailed for its operational core competence. It is credited with the invention of the hub and spoke model for airlines and for being on the forefront of state-of-the art technology including internal management software, ticket kiosks and online travel agencies. Delta is also touted as a pioneer in customer comforts: it was among the first to offer high quality snacks (not just nuts or pretzels), in-flight entertainment, iPod plug-ins, and airline seats that allow customers to lie flat. All of these aspects of technical competence helped Delta gain the trust of its external stakeholders—especially customers.[20]

Unfortunately, Delta failed to demonstrate similar levels of managerial competence: internal stakeholders (employees and investors) lost trust in Delta because of the inability of managements to manage the workforce and keep costs down. After suffering continuous losses since 2001, Delta had to declare bankruptcy and file for Chapter 11 protection in September, 2005. Leading the way to bankruptcy was a series of events implicating severe managerial incompetence: a highly-publicized executive compensation scandal that destroyed trust between management and workers; massive layoffs in 2004 that would continue through 2006; a delay in pursuing cost-cutting strategies even in the face of increasing fuel costs and competition from low-fare carriers; strikes by pilots and other airline workers; and a highly-publicized conflict with an employee who was fired for posting Internet web logs that were critical of Delta.[21]

Sprint Nextel provides an example of how focusing on long-term viability and competitiveness (managerial competence)—but neglecting technical competence—can be equally damaging. In early 2004, Sprint was the third largest wireless phone company in the U.S., serving about 20 million customers. Due to a series of mergers, its primary competitors had managed to acquire twice as many customers (AT&T/Cingular had approximately 46 million customers and Verizon served approximately 41 million customers). Sprint management responded to its loss of market share by acquiring Nextel, the 5th largest wireless phone provider which served 15.3 million customers. Sprint's management was determined to boost investor confidence by building market share with a deal that was expected to create synergies and reduce costs. Analysts applauded the merger and stocks rose by almost 30 percent over the next 15 months.

In the meantime, the seeds of distrust were being sown due to a degradation of perceived technical competence. One of Nextel's key suppliers, Motorola, soon discovered that its proprietary iDEN network would be phased out within two years of the merger, and that customers would be transitioned to the CDMA network run by Sprint. Sprint and Motorola had enjoyed a rocky relationship before, and the merger certainly did not help increase Motorola's confidence in Sprint. [22] It is thus unsurprising that the transition phase was beset with technical problems related to the once highly acclaimed iDEN network.[23] Customers left in hordes: in 2006, 300,000 customers dropped their service, mostly blaming the poor quality of the former Nextel network now owned by Motorola. Sprint also became known for its poor customer service.[24]

In April 2007, Sprint ranked lowest in a customer service satisfaction rating of all industry players in the United States. Sprint was given a "poor" rating by 40% of poll

respondents surveyed by Zogby. (No other company had more than 30% negative ratings.) Customers who had complaints had to deal with long wait times and unsatisfactory answers. False advertising for products and services (e.g., at Radio Shack, Sprint advertised unlimited roaming, but many customers ended up only receiving 50 free roaming minutes)[25] contributed to these low levels of customer trust. In an unprecedented move, Sprint itself decided to terminate at least 1,000 service contracts with customers that had called customer service "too often"!

While low customer trust has not sunk Sprint Nextel's business, investors have for the past 15 months continuously downgraded the performance prospects of Sprint and share price has decreased by 40% between April 2006 and December 2007. Management is not blind to these consequences and has created a new executive position to deal with low customer trust. Bob Johnson, the chief service officer states: "We are introducing programs to reward our customers and show our appreciation for their business. Rewarding their loyalty is a first step in gaining their trust."[26]

In the case of Delta, no amount of technical competence and innovation could salvage the trust lost with employees and investors due to perceived managerial incompetence. In the case of Sprint/Nextel, seemingly important managerial initiatives targeting customer acquisition and market share crowded out customer concerns regarding technical competence. Because different stakeholders have different needs, neither dimension of competence can be given short shrift.

IV. Building Trust with One Group Can Destroy Trust with Another

As the above examples demonstrate, managing trust is a complex process because stakeholder groups have different needs and vulnerabilities and efforts aimed at solving one trust problem can exacerbate others. Consider the case of Deutsche Bundesbahn, the German railway,

which was once a state-owned organization. Customers trusted the service and reliability of the organization so much that there used to be an adage that translated as “you are as punctual as the Deutsche Bundesbahn”. Unfortunately, despite high levels of technical competence, the organization was not run efficiently and had high operating losses. In an effort to boost managerial competence, in 1994, the railways were privatized as Deutsche Bahn. The result? The organization is now earning substantial profits and preparing for an IPO; according to almost any standard, it is a successfully managed organization. But there is a problem: customer trust has plummeted. Poor service and constant delays have tarnished perceived technical competence and have lead to consistently poor reputation ratings even as managerial competence has increased.

While the case of Deutsche Bahn demonstrates the unanticipated trust consequences that might follow broad changes in organizational structure, the recent case of Mattel illustrates how even more mundane (albeit important) decisions can destroy relationships when stakeholder *trust tradeoffs* are ignored. In August, 2007, it was revealed that several of Mattel’s toy products were defective and that others were contaminated with lead paint. In the following weeks, Mattel issued three major recalls involving over 20 million items.[27] In an effort to rebuild trust with concerned customers, Mattel’s CEO Bob Eckert publicly declared that it had been “betrayed” by its Chinese suppliers. He argued that Chinese subcontractors had violated Mattel’s standards and had used unauthorized lead-based paint. In response to these violations, Mattel management promised to build a high intensity control system which would include pre- and post-production controls aimed at suppliers and products.[28] In addition, Mattel demonstrated the seriousness of its resolve by terminating its relationship with several supplier firms.

Unfortunately, this aggressive response aimed at salvaging customer trust had terrible consequences for the trust of other Mattel stakeholders. The CEO of one Chinese supplier reportedly committed suicide and the Chinese government was outraged about Mattel's attack on the reputation of Chinese businesses and institutions. When it was revealed that most of the recalled items (17.4 million) had nothing to do with lead paint, but rather with malfunctioning magnets, Chinese government officials demanded a public apology by Mattel aimed at restoring China's reputation as a sound trading partner. [29]

On September 21, Thomas Debrowski, Mattel's executive vice president for worldwide operations, flew to Beijing and publicly stated that the firm itself was responsible for the large majority of recalls. "Mattel takes full responsibility for these recalls and apologizes personally to you, the Chinese people and all of our customers who received the toys," he stated before reporters in Beijing. "It is important for everyone to understand that the vast majority of these products that we recalled were the result of a flaw in Mattel's design, not through a manufacturing flaw in Chinese manufacturers." [30]

This time, Mattel's strategy had been aimed at rebuilding trust with the Chinese government and its Chinese suppliers, but this too had unintended consequences. New York Senator Charles Schumer echoed the reaction of consumer advocates when he likened Debrowski's apology to a "bank robber apologizing to his accomplice rather than the person who was robbed."

While trust trade-offs are sometimes unavoidable, they can often be anticipated and their negative consequences mitigated. The key is to avoid defining the set of "relevant stakeholders" too narrowly. If Mattel had identified the multiple stakeholder groups that were affected by the

recalls—and would be affected by its reaction—it would have taken a more balanced approach from the beginning.

V. Value Congruence Matters… Across the Board

One of the most underestimated elements of trust may be the desire stakeholders have for value congruence. There is a persistent belief (among practitioners and researchers alike) that value congruence matters in relatively few, close trusting relationships (e.g., those between spouses, friends, or close business partners). In contrast, we find that although value congruence matters *most* to employees (i.e., those who are indeed closest to the organization), trust is based on perceived value congruence for all stakeholders. In other words, stakeholders of all types are interested in associating with organizations with whom they can identify, and with whom they perceive a match in values.

Google illustrates the critical role value congruence can play—both positively and negatively—in stakeholder trust. When Sergey Brin and Larry Page took Google public in 2004 they created two classes of shares: Class A shares (for outside investors) would have one-tenth the voting rights of Class B shares (for insiders). This sent a signal: Google insiders will determine what is worth doing and no outsiders can impose their values on them.'[31] They clarified this intent in a letter from Larry Page:

> "Google is not a conventional company. Eric, Sergey and I intend to operate Google differently, applying the values it has developed as a private company to its future as a public company… We will live up to our "don't be evil" principle by keeping user trust and not accepting payment for search results…. (We) will do our best to make Google a long term success and the world a better place. "[32]

Google's values were much embraced by its various stakeholders and engendered high levels of trust. Google was named the best place to work[33] and received stellar reputation marks in several surveys[34]; stock prices soared.

Recently however, Google has come under fire—arguably more so because of its espoused values. In order to serve the Chinese market, Google entered into a deal with the Chinese government and accepted self-censorship for certain topic areas (such as the Tiananmen Square massacre, Tibet, and the Independence of Taiwan). While competitors Microsoft and Yahoo! had already taken similar steps in order to boost business in China, Google's actions were seen as particularly reprehensible by many users because of Google's values pledge ("don't be evil").[35] As a consequence, trust in Google's founders was seriously affected: its executives were compared to Nazi collaborators and had to appear in Congressional hearings to explain their actions; protesters marched up to Google's company headquarters in Mountain View, California.[36] Even Sergey Brin admitted that "on a business level, that decision to censor... was a net negative."[37]

Craigslist, the online classifieds, is another organization that sees value congruence as a core firm asset. Craigslist founder, Craig Newmark, is more willing to reference the "golden rule" than the "profit motive" when discussing appropriate guides for identifying and achieving organizational objectives, and CEO Jim Buckmaster has told investment bankers and Wall Street analysts that monetizing its services and finding additional revenue sources in an effort to maximize profits is "not part of the goal".[38] Not surprisingly, this approach appeals to Craigslist's customer base and employees; our own data suggests that many stakeholders mistrust businesses in part because firms have a fiduciary responsibility (and usually strong

incentives) to maximize shareholder value and their behavior is hence perceived as opportunistic.[39] Of course, investors have a different perspective altogether.

How might firms deal with this dilemma? On the one hand, Craigslist is growing at remarkable rates and its expected market value (were it to IPO) continues to increase even as it clings to the values it espoused at its founding. This suggests that a company can be "values-driven" without necessarily incurring a decrement in market value. Another interesting trend in this regard is the growth rate of investments in "socially conscious funds".[40] The greater willingness of arms-length investors to limit their investments to such funds suggests that the conflict between investor values and the values of other stakeholders may be diminishing. On the other hand, a "trust tradeoff" dilemma of the sort identified in the previous section likely does and will continue to persist: should an organization maintain the trust of its investors or of its employees and customers? Unless a company is privately held (such as Craigslist), it seems unlikely that it will have the ability to resolve such a tradeoff by giving short shrift to investors. Rather, a wise long-term approach may involve affirmative actions in favor of values-congruent operations and objectives within the constraints of fiduciary responsibility. Consistent with this, research by Margolis and Walsh (2003) finds that managers, despite their fiduciary duty to maximize shareholder value, have much more latitude in managing social responsibility than is often assumed. In a meta-analysis of peer reviewed articles examining the effects of corporate social responsibility (CSR) on corporate financial performance (CFP) they find that the effect of CSR on CFP is small but *positive*. In other words, it may be possible to appease a diverse set of stakeholders (at least to a degree) without offending investors.

Unfortunately, businesses seem to be doing poorly in terms of perceived value congruence and trust. The overall reputation of corporations in the US (and across the globe) is

very low and perhaps still decreasing. In 2005, 71% of respondents in an annual reputation survey rated American businesses' reputation as "not good" or "terrible". Meanwhile global businesses were awarded negative trust ratings by a majority of respondents in over 14 countries surveyed by the World Economic Forum in 2006.[41] This is certainly bad news for business as a whole. On the other hand, it also suggests that any firm which can successfully balance fiduciary responsibility with a strong emphasis on values may be able to leverage stakeholder identification as a (perhaps increasingly rare) core asset.

Conclusion

Managing stakeholder trust is not easy. However, for those companies wishing to reap the benefits of improved cooperation with suppliers, increased motivation and productivity among employees, enhanced loyalty among customers, and higher levels of support from investors, managing stakeholder trust is a prudent, if not critical investment. As this article has identified, trust management may require an appreciation for some unconventional insights regarding the appropriate investment of resources. Stakeholders differ with regards to the kinds and degrees of vulnerability they face; what they need to believe before they will trust also differs. Would-be trust managers will be wise to consider these varying needs and to anticipate the tradeoffs that exist in strengthening relationships with specific stakeholders.

Endnotes

---

[1] See article: http://www.businessweek.com/2001/01_02/b3714196.htm

[2] When Managers Cover Their Posteriors: Making the Decisions the Market Wants to See , Adam Brandenburger, Ben Polak, *The RAND Journal of Economics*, Vol. 27, No. 3 (Autumn, 1996), pp. 523-541

[3] George, W. 2007. Nonperforming CEOs, Business Week.

[4] Daylian Cain, Don Moore, and George Loewenstein (2005), The Dirt on Coming Clean, Organizational Behavior and Human Decision Processes.

[5] http://www.cfo.com/article.cfm/2999549?f=search

[6] http://online.wsj.com/article/SB997646550531664024.html?mod=googlewsj

[7] http://www.automotoportal.com/article/porsche-is-highly-regarded-by-students-in-europe;

[8] http://money.cnn.com/2006/06/07/Autos/jdpower_iqs/index.htm; http://archives.cnn.com/2002/BUSINESS/01/18/porsche/

www.harrisinteractive.com/services/pubs/The_Wall_Street_Journal_Corporate_Reputation_Survey_2004.pdf

[9] "Ivester responds to Belgian product withdrawal'' *KO Now*, June 16. http://news.bbc.co.uk/1/hi/world/europe/371300.stm

[10] Tuck Business school coke case Argenti etc..

[11] Victoria Johnson, Spero C. Peppas, Crisis management in Belgium: the case of Coca-Cola, Corporate Communications: An International Journal,2003 Volume: 8 Issue: 1 Page: 18 - 22

[12] Three Years after Recall, Coca-Cola Sales in Belgium Are Better than Ever, Atlanta Journal & Constitution, August 26, 2002

[13] www.businessweek.com/magazine/content/06_36/b3999066.htm

[14] Tuck Case

[15] http://www.atimes.com/atimes/South_Asia/HF23Df03.html

[16]

http://query.nytimes.com/gst/fullpage.html?res=9F06E0DD103EF935A1575BC0A9609C8B63

[17] http://www.atimes.com/atimes/South_Asia/HF23Df03.html

[18] http://www.ens-newswire.com/ens/jun2007/2007-06-05-07.asp

[19] http://conversationstarter.hbsp.com/2007/09/apples_phony_reaction_to_iphon_1.html

http://www.ipodobserver.com/story/32993

[20] www.ravenwerks.com/aviation/delta_southwest.htm

[21] www.ravenwerks.com/aviation/delta_southwest.htm

[22] "Motorola Stands to Lose from Sprint-Nextel Merger". eWEEK. December 2004.

Jaclyn Alcantara "Push or play: Motorola's Plantation-based unit is the sole supplier of cell phones to Nextel, but a planned merger with Sprint could jeopardize that cozy relationship". South Florida CEO. March 2005.

http://www.phonescoop.com/phones/p_forum.php?fm=m&ff=1023&fi=745515

[23] http://www.forbes.com/technology/2007/01/25/motorola-zander-nokia-pf-ii-in_jl_0125soapbox_inl.html

[24]

http://articles.moneycentral.msn.com/SavingandDebt/Advice/TheCustomerServiceHallOfShame.aspx

[25] http://www.ripoffreport.com/reports/0/091/RipOff0091001.htm

[26] http://today.reuters.com/news/articleinvesting.aspx?view=PR&symbol=S&storyID=303615+07-Nov-2007+BW

[27] http://money.cnn.com/2007/08/02/news/companies/china_recalls/index.htm

[28] http://www.ctv.ca/servlet/ArticleNews/story/CTVNews/20070814/china_recall_070814/20070814?hub=CTVNewsAt11

[29] http://chasingthedragon.blogs.fortune.cnn.com/2007/09/25/why-mattels-apology-to-china-only-makes-it-worse/

[30] http://news.bbc.co.uk/1/hi/business/7006599.stm

[31] http://query.nytimes.com/gst/fullpage.html?res=9A01E1DA1431F935A35755C0A9629C8B63

[32] Brin, Page (2004), Letter to investors. Copyright 2005 Newsday Inc.

[33] Best place to work institute xxxx

[34] Reputation Institute, Harris RQ xxx

[35] http://www.dontbeevil.com/

[36] New York times

[37] http://www.guardian.co.uk/technology/2007/jan/27/news.newmedia

[38] http://dealbook.blogs.nytimes.com/2006/12/08/craigslist-meets-the-capitalists/

[39] Pirson, M. (2007), Facing the trust gap: measuring and managing stakeholder trust.

[40] http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20071210/REG/312100033/1030/MUTUALFUNDS

[41] http://www.ethicalcorp.com/content.asp?ContentID=4097