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# DEFINITIONAL ISSUES IN STAKEHOLDER TRUST

Philip Nichols

Laboratory for Comparative Social Research, July 2015



*a basic duty of every organization  
is to earn stakeholder trust*

# **definitional issues**

types of trust

stakeholders

boundaries of stakeholder effect

relationship between stakeholder trust and ethical behavior

relationship between stakeholder trust and cultural context

stakeholder trust as a contributor to broader economic/social growth

# **trust**

positive expectation regarding behavior of another under conditions of risk

perception that interests are sufficiently aligned

# types of trust



personalized



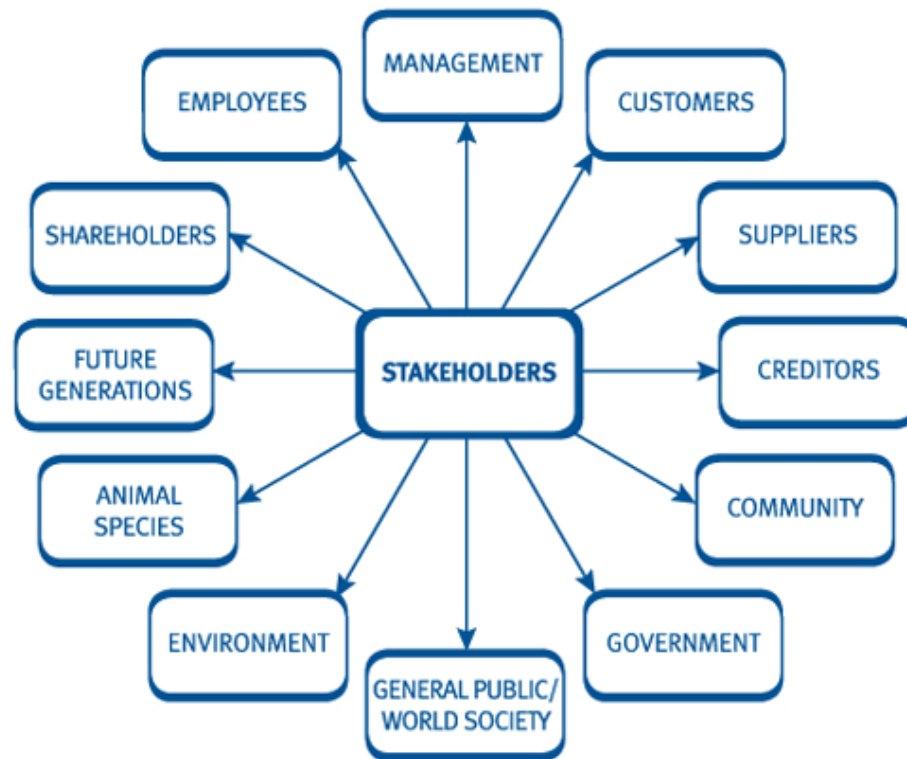
particularized



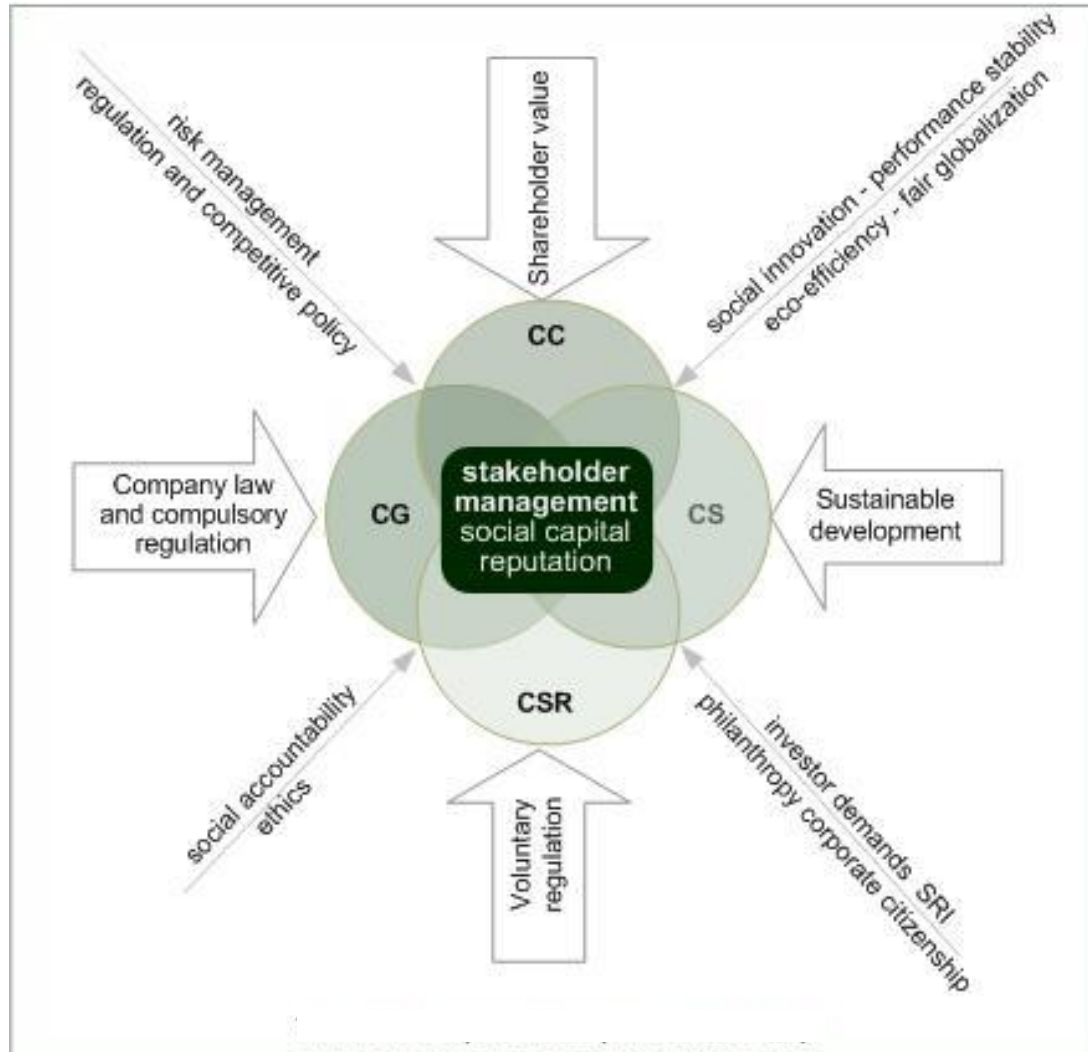
generalized

# stakeholders

“groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, business firm action” Ed Freeman, 1984



# stakeholders



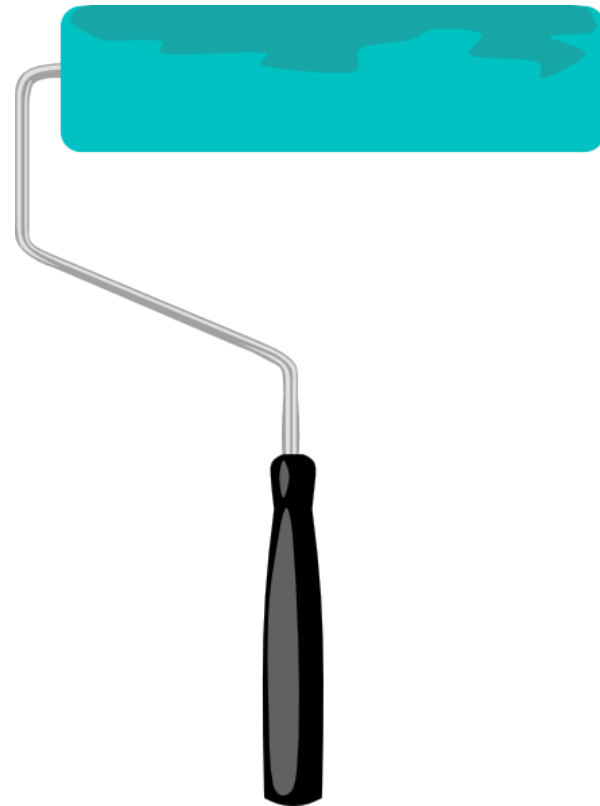
# boundary of stakeholder effect





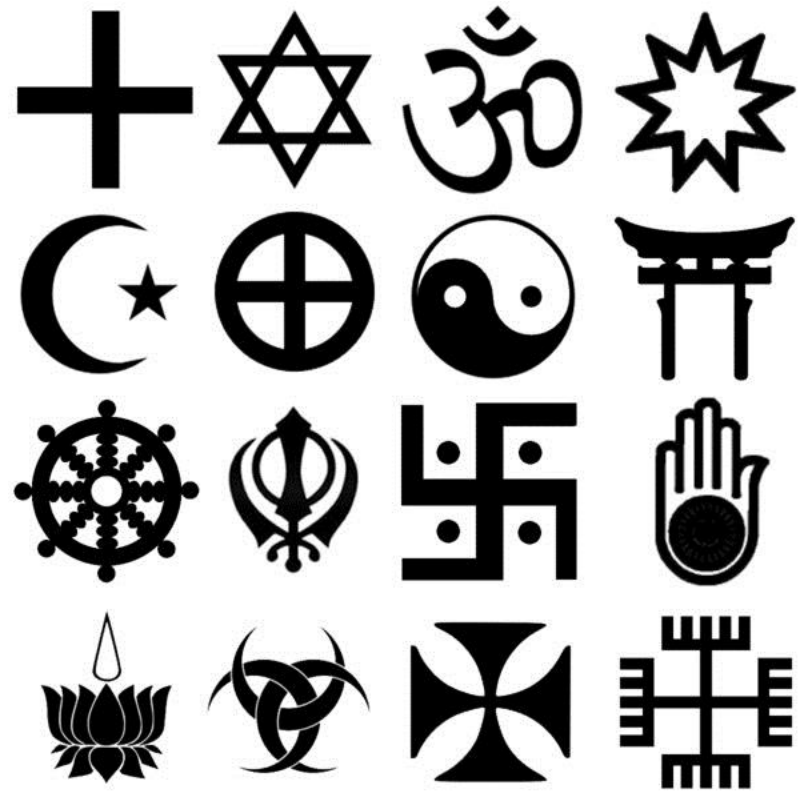
# stakeholder trust and ethical behavior

objective: to promote socially appropriate/ beneficial behavior in business firms using a measurable and comparable proxy



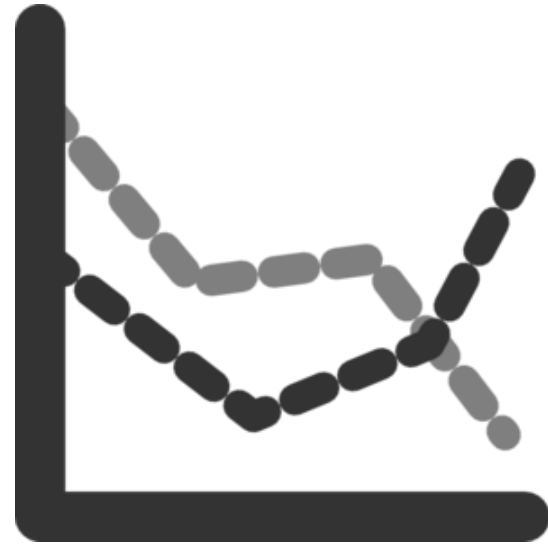
# stakeholder trust and cultural context

objective: to promote socially appropriate/beneficial behavior in business firms using a measurable and comparable proxy

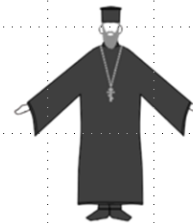


# broader economic/social growth

objective: to promote socially appropriate/beneficial behavior in business firms using a measurable and comparable proxy



personalized



particularized



generalized

*a basic duty of every organization  
is to earn stakeholder trust*



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thank you / спасибо

# STAKEHOLDER TRUST SCORE

## A proposal

Presentation to Laboratory for Comparative Social Research

28 July 2015

Patricia Dowden, President and CEO



Центр деловой этики  
и корпоративного управления

# Proposal for a Universal Business Ethics Principle

*“A basic duty of every organization is  
to earn stakeholder trust.”*

# Stakeholder Trust Hypotheses

- Trust has universal characteristics





# Stakeholder Trust Hypotheses

- Trust has universal characteristics
- **Trust is rooted in contemporary behavior, not just history**



..... *He who trusts has never yet lost in the world."*

— Mahatma Gandhi

# Stakeholder Trust Hypotheses

- Trust has universal characteristics
- Trust is rooted in contemporary behavior, not just history
- **Trust empowers cooperation**



# Stakeholder Trust Hypotheses

- Trust has universal characteristics
- Trust is rooted in contemporary behavior, not just history
- Trust empowers cooperation

• **Ethical behavior and trustworthy behavior are aligned; therefore, stakeholder trust is a proxy measure of an ethical business culture.**



Ethical Behavior Trustworthy Behavior

- honesty
- fairness/justice
- transparency
- 2-way communication
- reliability
- loyalty
- ethical leadership
- competence
- respect
- responsibility
- caring
- citizenship
- respect for law
- morality
- credibility

# Stakeholder Trust Hypotheses

- Trust has universal characteristics
- Trust is rooted in contemporary behavior, not just history
- Trust empowers cooperation
- Ethical behavior and trustworthy behavior are aligned; therefore, stakeholder trust is a proxy measure of an ethical business culture.

- Operationalizing trustworthy/ethical behavior requires measurable goals



# Stakeholder Trust Hypotheses

- Trust has universal characteristics
- Trust is rooted in contemporary behavior, not just history
- Trust empowers cooperation
- Ethical behavior and trustworthy behavior are aligned; therefore, stakeholder trust is a proxy measure of an ethical business culture.
- Operationalizing trustworthy/ethical behavior requires measurable goals



- **Stakeholder voices now have a megaphone: internet and social media**

# Stakeholder Trust Business Case

*Trust is rapidly growing as a topic of concern for business*

- 50% of CEOs surveyed regard trust as a major concern and a real threat for growth (2014 Annual Global CEO Survey by PwC)
- World Economic Forum research ranked trust is one of the top three factors (65%) for corporate reputation.

## Factors most important to a corporate reputation

High quality products or services	69%
Transparent and honest business practices	65%
Company I can trust	65%
Treats employees well	63%
Communicates frequently	55%
Prices fairly	55%
Good Corporate citizen	51%
Innovator	46%
Widely admired leadership	39%
Financial returns	39%

# Stakeholder Trust Business Case

*Trust is profitable*

*In market economies:*

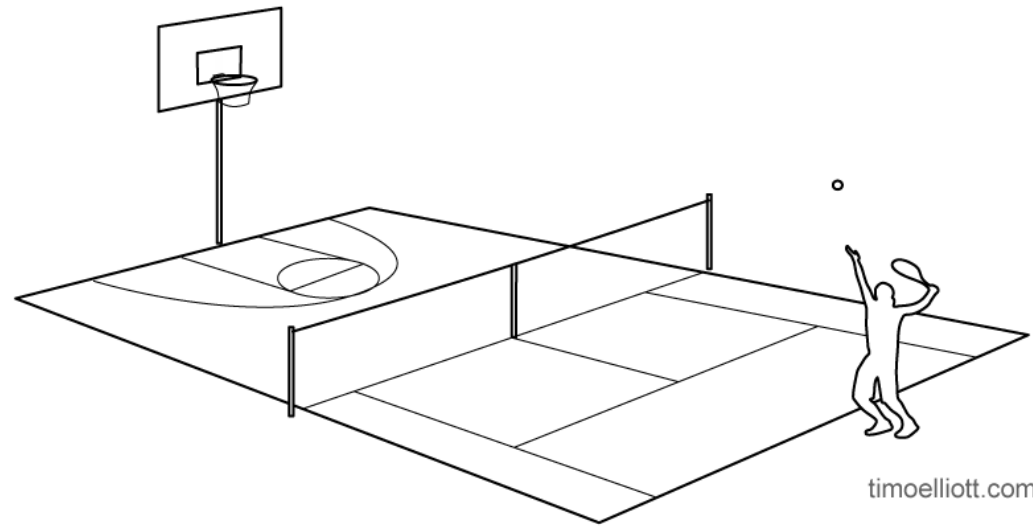
*Fortune's Trust Index survey of employees:*

- **Trust Index top-ranked companies produce three times the cumulative market return as others in the Russell 3000 or S&P 500 companies**
- **a 50% increase in the Trust Index score correlates with a 12-fold increase in profits**

# Stakeholder Trust Business Case

*Trust is  
profitable*

.... shifts business  
perception of ethics  
compliance from a  
costly interference to a  
profitable strategy.



timoelliott.com

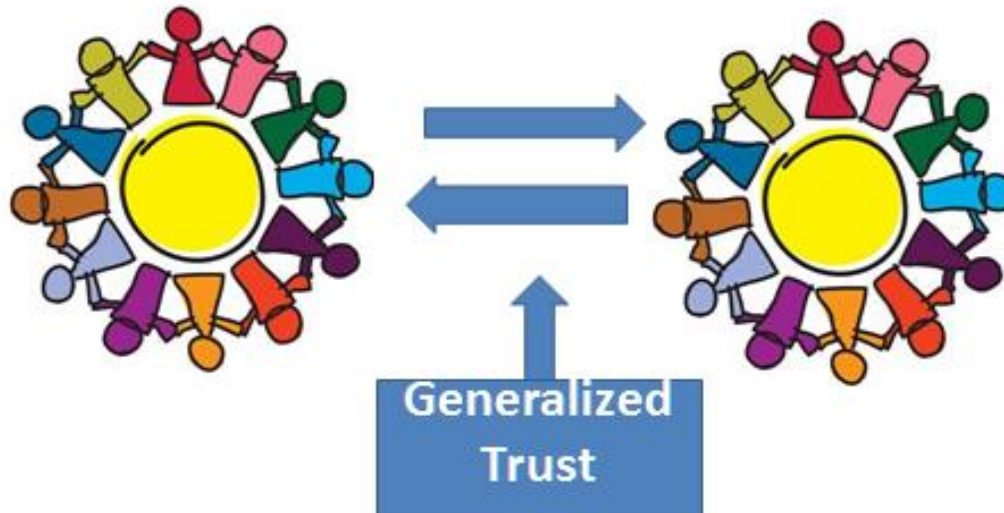
*Game-changer\**



# Stakeholder Trust Business Case

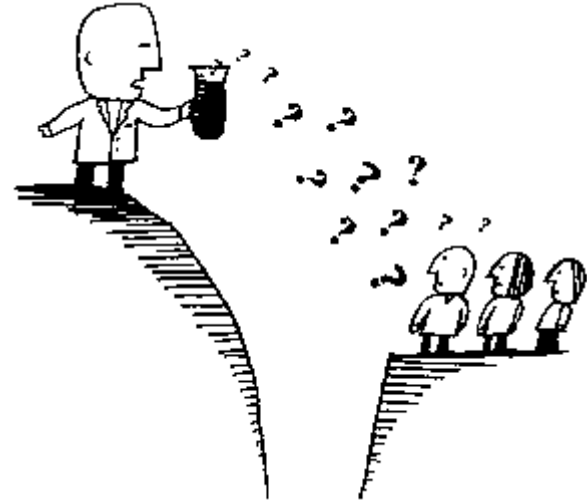
*In emerging economies:*

Generalized trust is the most important factor in economic development.



# Stakeholder Trust Perception Gap

*Business leaders don't understand / share stakeholder perceptions*



- World Economic Forum: “Efforts to close the trust gap ...face two key challenges: 1. The absence of a clear business case.... 2. ...a fundamental disconnect between how the public and business understand “trust”.
- One study suggests that three-quarters of U.S. employees today would consider taking a new job and one-third are actively looking. Gallup’s research finds that 18% of workers are not only not engaged but *actively disengaged*.

# Stakeholder Trust Score: A proposal

## Researchers

- Develop trust characteristics questionnaire  
(*identify trust characteristics common to all cultures*)

### EXAMPLES

- honesty
- fairness/justice
- transparency
- 2-way communication
- reliability
- loyalty
- ethical leadership
- competence
- respect
- responsibility
- caring
- citizenship
- respect for law
- morality
- credibility

# Stakeholder Trust Score: A proposal

## Researchers

- Develop trust characteristics questionnaire
- Develop organization performance questionnaire  
(*design instrument that translates characteristics to organization performance*)

### Employees

- *Performance management*
- *Teamwork*
- *Personal growth*
- *Organizational effectiveness*
- *Productivity*
- *Employee satisfaction*
- *Organization reputation*
- *Likely to recommend?*

### Customers

- *Competent staff*
- *Reliable products*
- *Fair pricing*
- *Responsiveness*
- *Honest dealings*
- *Overall satisfaction*
- *Organization reputation*
- *Likely to recommend?*

# Stakeholder Trust Score: A proposal

## *Researchers*

- Develop trust characteristics questionnaire
- Develop organization performance questionnaire

## *Respondents*

- **Prioritize organization performance characteristics**  
*(respondents weight questions – allows customization by organization, by culture)*

1= not important

5= very important

# Stakeholder Trust Score: A proposal

## Researchers

- Develop trust characteristics questionnaire
- Develop organization performance questionnaire

## Respondents

- Prioritize organizational performance characteristics
- Evaluate organization performance characteristics  
(create “Balanced Scorecard”)

Item	Priority	Evaluation	Score
#1	4 (important)	3 (satisfactory)	12
#2	1 (not important)	2 (fair)	2
#3	5 (very important)	5 (excellent)	25
<b>TOTAL</b>	10		39
<b>ORGANIZATION SCORE</b> ( $\sum$ Scores/ $\sum$ Priorities)			<b>3.9</b> (very good)

# Stakeholder Trust Score: A proposal

## *Researchers*

- Develop trust characteristics questionnaire
- Develop organization performance questionnaire

## *Respondents*

- Prioritize organizational performance characteristics
- Evaluate organization performance characteristics

## *Organizations*

- Analyze correlation between profitability and Stakeholder Trust Scores

*(make business case for owner stakeholder*



# Stakeholder Trust Score: A proposal

## *Researchers*

- Develop trust characteristics questionnaire
- Develop organization performance questionnaire

## *Respondents*

- Prioritize organizational performance characteristics
- Evaluate organizational performance characteristics

## *Organizations*

- Analyze correlation between profitability and Stakeholder Trust Scores
- **Bridge gap between managers, stakeholders**  
*(scores provides feedback)*





# Russia as Doctor and Patient



## *DOCTOR*

- Highest levels of education
- History of great thinkers
- LCSR and WVS partnership

## *PATIENT*

- Lowest WVS scores
- Enormous potential  
(natural and human resources)
- Bridge between East and West



This report was presented at the 5th LCSR Summer School “Introduction to Factorial Design and Data Visualization with R”.

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<http://lcsr.hse.ru/en/summer2015>

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25 июля – 3 августа 2015 года – НИУ ВШЭ, Вороново, Московская область.

<http://lcsr.hse.ru/summer2015>