CHAPTER 7.

TRUST.

“CORRUPTIO OPTIMI PESSIMA” – “Corruption of the best is the worst.”

(Latin citation, origin unknown)

Public trust in business has reached a very low level as a result of the many frauds, thefts and misrepresentations which have led to the demise of some of the largest corporations worldwide and resulted in enormous losses for investors, employees and other stakeholders. Trust means being accurate, complete and relevant in one’s dealings with others.

A survey done by the World Economic Forum in 15 countries showed that the percentage of people saying they had “a lot” or “some trust” in the executives of multinational companies averaged only 33%. The leaders themselves enjoyed less trust than the corporation they led. In a follow up survey by a US research institution 74% of people said the reputation of corporate US is either “not good” or “terrible”.

This lack of trust is the result of considerable differences in values between society and business, and this leads to pressure by society for more regulations and legislation to control business. Due to such pressure, the Sarbanes-Oxley law was promulgated in the US. In South Africa we have among others, “the Prevention and Combating of Corrupt Activities Act” (PACCA) of 2004. This act states in its preamble:
“Corruption and related corrupt activities undermine the rights contained in the Bill of Rights, endanger the stability and security of society, undermine the institutions and values of democracy and ethical values and morality, jeopardize sustainable development, the rule of law and credibility of governments, and provide a breeding ground for organized crime.”

Francis Fukuyama, in his book on trust (4. Fukuyama, 1995), shows how a low-trust-society has high transaction costs. The implementation of the Sarbanes-Oxley law has increased auditing expenses in the US by between 200% and 300%. Clearly business does not enjoy being smothered with regulations and having to incur the extra cost, but more amenable self regulation by business is insufficient. The more complex and challenging business environment does not allow reliance on the market to police itself. Where large sums of money are involved, ethical issues are often not taken too seriously, meaning that institutions and laws are needed to help keep actors on the straight and narrow.

Society has been outraged by the frauds and corporate governance lapses including exorbitant executive pay awards (e.g. the debacle around the Mannesmann/Vodaphone bonuses and the increases granted by many boards to the CEOs of the companies they lead and which did not perform well). All this has eroded trust by society in business and yet “without trust we cannot stand” as Onora O’Neill states (18. O’Neill, 2002: 3). We need to be able to trust one another at least to some extent for society to function. As the sociologist Niklas Luhmann said “a complete absence of trust would prevent one even getting up in the morning”.

What needs to be done to rebuild this all important commodity of trust? Obviously telling the truth, being open and transparent, disclosing all relevant information needed by the parties concerned to make a rational decision – in short, doing what for Kant is the most important ethical requirement – respecting the dignity, the autonomy of others – is the
minimum. However, Oliver Williams\textsuperscript{35} believes that this is not enough for building or restoring trust in business. Stakeholders, be they supporters or critics, must be given the opportunity to ask a specific person in a particular business for specific information. By offering stakeholders this chance and by ensuring that such enquiries are truthfully and completely answered, trust can slowly be rebuilt. Business must realize that it plays an important role in society and that it carries important responsibilities vis-à-vis the populace and that it will be severely sanctioned if it does not fulfill its relevant obligations and thus loses the trust of the community.

If there is mistrust within a company, the business cannot have trusting relationships with its outside stakeholders. That will result in poor customer loyalty, acrimonious and damaging supplier relationships and reluctant providers of capital. Mistrust among managers and staff translates into poor motivation, non-cooperation and bad productivity. Open, truthful and ready communication and consultation is the basis of trust. The CEO and management must make this their responsibility and, although good communication and honest consultation are difficult and time consuming, it is an investment no business can afford not to make.

But without independent external monitoring, verification and public disclosure – without the laws, institutions and regulations, business’s initiatives in this respect would only add to public cynicism. Management may talk of mutual trust when unveiling a compliance policy, however, employees often see such a policy as nothing more than liability insurance for senior management – although such an attitude by employees may be entirely unreasonable.

South African multinationals and large corporations are trusted by South African society to a much larger extent (63\%) than for instance US organizations by Americans. This can be ascribed to the positive efforts by some South African companies to help their

\textsuperscript{35} Oliver Williams is academic director of the Centre for Ethics and Religious Values in Business at Notre Dame University in the US, and a Donald Gordon visiting fellow at the UCT Graduate School of Business. Much of what is said in this section on trust is based on an article by Oliver Williams which appeared in the Business Day of 2\textsuperscript{nd} July 2004.
employees in the fight against HIV/AIDS, to support affirmative action and to accept the need for black empowerment (although a great deal more needs to be done with regard to these issues, particularly by medium and small businesses). Actions such as Pick ‘n Pay’s open and forthcoming handling of the recent blackmail action against it has helped build considerable consumer trust. Contrast this with the disaster at Mitsubishi, which resulted from their withholding information from the public concerning hidden defects in certain of their cars.

However, trust in the end relies on the integrity, good will and character of the leaders and the managers of businesses. As Oliver Williams stated: “Business leaders are first of all human beings and only secondarily managers of wealth creation. To check your human values at the office door is to invite chaos”.

Finally, real trust is not built purely on rational choice; it is normative. Normative trust is the result of integrity, good character and principle. It is, I believe, the only trust of moral value because it is not based on egoism and prudence but on good will, interdependence and reciprocity. Trust has to be earned. As Onora O’Neill says: “Well placed trust grows out of active inquiry rather than blind acceptance” and this is of course in line with the comments by Oliver Williams, as quoted above.