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TOWARDS A CONCEPTUAL MODEL OF THE RELATIONSHIP BETWEEN CORPORATE TRUST AND CORPORATE REPUTATION

by

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DECLARATION

I hereby declare that this thesis, which I submit for the degree PhD Communication Management in the Faculty of Economic and Management Sciences at the University of Pretoria, is my own work and has not been submitted by me for a degree at another university.

WAJ van der Merwe

11 February 2013

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ABSTRACT

This study endeavours to conceptualise the corporate trust construct and its relationship with corporate reputation more holistically, to address the current perceived lack of conceptual clarity of the relationship between these two constructs.

The key premise of this study is that a for-profit organisation's ability to generate sustainable wealth over time and ensure its own long-term economic sustainability is related to its relationship with its entire stakeholder network. Since an organisation is dependent on its stakeholders' approval, commitment and supportive behaviour, it is important to understand what influences and drives their perceptions and assessment of an organisation, and their decision to support it. This highlights the importance of understanding the relationship between corporate reputation and corporate trust.

For this purpose this researcher has developed a conceptual model founded on basic, theoretical research, with the aim of clarifying current and existing theory and providing a new theoretical perspective. A conceptual model is a simplified and systematic representation of reality, which is made explicit in some abstract form. The descriptive and explicative properties of a model delineate the complex elements of the system more clearly, which fosters systematic thinking and enhances understanding.

The model developed as the result of this study suggests an inverse direction to the generally accepted view in current literature of the relationship between corporate trust and corporate reputation. Where trust is usually regarded as an attribute or antecedent of corporate reputation, this study has conceptualised trust as an outcome of corporate reputation and as the more comprehensive construct in the relationship.

Corporate reputation has been conceptualised as being merely a means to an end – to earn stakeholders' trust and thus their commitment and continued support – and not as an end in itself.

Trustworthiness, and not trust, has been identified as the key driver of corporate reputation. Seven key areas in which an organisation should display its trustworthiness

have been identified. These are proposed as the new antecedents of corporate reputation in order to build a reputation that will lead to stakeholders' trust and support.

Finally, recommendations have been made and the areas requiring further research have been identified.

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CHAPTER 1

ORIENTATION AND PROBLEM STATEMENT

1 INTRODUCTION: TITLE AND OUTLINE OF CHAPTER CONTENT

This research is titled: *Towards a conceptual model of the relationship between corporate trust and corporate reputation.*

The foundation for the study is laid in this chapter by introducing, as an orientation, the background to the issues that are addressed by the research. The research problem, purpose statement, methodological orientation and research objectives are outlined and justified in terms of the importance and potential contribution of this study to the work of academics and practitioners. The delimitations of the study are considered and the underlying assumptions applicable to this study are clarified, before each of the key terms used in this study is defined. A conceptual framework outlines the structure of the thesis, and the content of each chapter is then outlined within this overall conceptual framework. The chapter concludes with a brief outline of the demarcation of this study.

1.1 BACKGROUND: THE PROBLEM AND ITS SETTING

The start of the twenty-first century is characterised by an erosion of stakeholder trust in the private sector and its leaders "… as people see behind the scenes and think about ideas of fairness and the distribution of power" (Rangan, 2011:8).

Highly publicised corporate scandals such as Enron, Arthur Andersen, WorldCom and Parmalat during the past decades have shown just what a prohibitive price directors and executives have had to pay for the loss of stakeholder trust that they and their organisations suffered (Bakan, 2004:23,57-59,101; Eccles, Grant & Van Riel, 2006:354; Davies, Chun & Kamins, 2010:531; Gillespie & Dietz, 2009:127; Jones, 2007:32; Turnbull, 2002:2). The liquidation of corporate assets, litigation, loss of reputation, or the demise of once-powerful brands because of public reaction to what was perceived to be unacceptable corporate behaviour and management decisions, was a high price to pay indeed (Donaldson, 2000:1; Fombrun & Foss, 2004:284; Jackson, 2009:40; Neufeld, 2007:38). This threat to the sustainability of a for-profit organisation needs to be viewed particularly from a sociological systems perspective, which highlights the importance of understanding how a for-profit organisation, as a complex social system, interacts and relates with and depends on its environment and stakeholders.

Globally, increasing attention is being paid to sustainability issues (King, 2009:11). While the intensifying concerns about corporate sustainability are due in part to a series of highly publicised corporate environmental disasters (Gao & Zhang, 2006:723), it is actually the wave of international corporate social scandals since Enron, exposing the prevalence of serious forms of ethical and social misconduct in business (Bakan, 2004:58; Brammer & Pavelin, 2004:704; Cacioppe, Forster & Fox, 2008:681; Eccles *et al*., 2006:353; Fombrun & Foss, 2004:284; Goodpaster, 2007:18; Jones, 2007:20; Pirson, 2009:5; Pharoah, 2003:46), which has led to a crisis of corporate trust (Pirson, 2009:1; Uslaner, 2010:111).

The underlying cause of these scandals, as well as the global recession and the resulting crisis among leading financial institutions in the first decade of the twenty-first century, is increasingly presented as a crisis of corporate governance and sustainability, which essentially results in a loss of stakeholder trust (King, 2009:9,10; Pirson, 2009:1; Uslaner, 2010:111; Wood, 2002:61). The widespread response to issues such as these has led to a revived focus on and critical consciousness of the need to curtail the negative impact of organised business on society at large, a realisation of the importance of ethics in the private sector and the intensification of the stakeholder view.

Today, ordinary individuals have been rendered the means to make their voices heard and act against those organisations that they believe are breaching their social contract with the community and society at large – a contract that gives organisations their legitimate status within society (De la luz Fernández-Alles & Valle-Cabrera, 2006:503; King, 2009:21; King, Felin & Whetten, 2010:292; McPhee & Zaug, 2001:577; Swift, 2001:17). This poses a severe challenge to for-profit organisations in the twenty-first century, since it is asserted that the current crisis of trust presents a major threat to long-term corporate success and viability (Pirson, 2009:1).

A for-profit organisation earns the necessary approval to operate from its stakeholders, and these self-same stakeholders can decide to withdraw their sanction of the organisation's business operations, should they lose their trust in it because they believe that the organisation is in violation of its social contract with the wider society (King, 2009:22; Pirson, 2009:23). As Jones (2007:48) aptly puts it: "Unethical organizations will be penalized because people will refuse to deal with them, proving that there are constraints on organizations beyond those of the law."

The growing awareness of the severe risks, brought about by widespread societal actions that are incompatible with sustainability, facing the economy, society and the environment in the twenty-first century (Bañon Gomis, Guillén Parra, Hoffman & McNulty, 2011:173), is therefore believed to signify an end to the 'business as usual' approach (Pirson, 2009:1). Stakeholders are increasingly demanding that organisations should adopt a profoundly different approach to conducting their business, one that will move beyond a singular focus on its short-term economic matters to a more holistic and ethical focus on how it does business, which also considers the long-term impact it has on society (King, 2009:61; Moon, Crane & Matten, 2003:14; Moss Kanter, 2011:68; Pirson, 2009:5; Porter & Kramer, 2006:81).

In response to pressure from the public for better corporate behaviour and more accountability, and "… in the interests of the society and future generations" (Gao & Zhang, 2006:723), there has been a global emergence of governance, social and environmental legislation. Questions of corporate ethics and sustainable business practices have therefore taken centre stage in boardroom discussions with legislation and codes of ethics being put into place to guide businesses not to act fraudulently, unethically or irresponsibly towards society and its environment (Jones, 2007:48); in other words, to restore and build trust in the corporate environment.

In South Africa, much has been done to date in terms of guiding corporate governance. Following the proclamation of the new Companies Act (No. 71 of 2008), the *King Code of governance principles* (King lll) and the *King Report on governance for South Africa* were published in 2009 by the Institute of Directors in Southern Africa (King, 2009:5). The philosophy of King lll centres on leadership, sustainability and responsible corporate citizenship, based on an ethical foundation (King, 2009:10). In this context, particularly with the focus on the leadership's key challenge of ensuring corporate sustainability, renewed emphasis is placed on the importance of corporate reputation and corporate trust (King, 2009:11,100).

This study contends that the capacity of a for-profit organisation to generate sustainable wealth over time is linked to its relationship with its entire stakeholder network, and particularly in supporting and enhancing its sustainable value-creation processes by earning and safeguarding its stakeholders' trust (Perrini & Castaldo, 2008:1).

In particular, this study regards the loss of stakeholders' trust as one of the most significant threats to the long-term economic sustainability of a for-profit organisation. It then argues that any for-profit organisation that wants to implement its strategy and ensure long-term sustained growth (King, 2009:100) needs to create trust between itself and all its internal and external stakeholders, without whom it will not be able to operate sustainably (King, 2009:21). An organisation can do this when it both *becomes* and *is seen to be* trustworthy and ethical (King, 2009:26), which highlights the importance of understanding the relationship between corporate trust and corporate reputation. Essentially, this study posits that a for-profit organisation that fails to become and be seen as trustworthy and ethical places its long-term economic success, its own corporate sustainability, in a perilous position (King, 2009:100).

1.1.1 Problem orientation

The increased focus being placed on trust, in relation to reputation, as is evidenced in among others King III (King, 2009:13,21,25,35,103,115), highlights the need for conceptual clarity of the corporate trust construct and its relationship with corporate reputation.

The terms 'reputation' and 'trust' are patently related and interdependent, but the nature of the conceptual relationship between these two concepts is not clear. The current perceived lack of a more holistic conceptualisation of the corporate trust construct and its relationship with corporate reputation – specifically whether trust is an antecedent or an outcome of reputation – raises the question how to effectively manage these corporate constructs in an organisation. Conceptual clarity is particularly important given the renewed emphasis on earning stakeholders' trust within a corporate sustainability framework.

The ambiguity surrounding the characteristics of and interplay between these two concepts is prevalent inter alia in some of the current leading corporate reputation and trust models and measurement tools, which differ in their perception of the nature of and relationship between these two constructs.

For example, in the multi-dimensional *Reputation Quotient*^{SM} (RQ) model developed by Charles Fombrun and Harris Interactive in 1999 as a standardised instrument to measure the reputation of an organisation and calculate an overall reputation score, 'trust' is merely regarded as one of the attributes (together with 'like' and 'admire') of the emotional appeal dimension (Einwiller & Will, 2001:8; Fombrun & Gardberg, 2000:13; Fombrun & Van Riel, 2004:51-3; Lloyd, 2007:54). Similarly, Fortune's *America's Most Admired Companies* model and measurement tool also includes trust as an attribute, i.e. an antecedent, of corporate reputation (Gardberg & Fombrun, 2002:305).

In contrast, there are existing corporate reputation measurement tools with the word 'trust' in the title, such as the *Edelman Trust Barometer* based in the United States of America (USA) and the South African-based *Ask Afrika Trust Barometer*. The use of these titles would at first suggest a different conceptual view of the relationship between reputation and trust, namely that trust is an outcome of reputation. However, despite the inclusion of the word 'trust' in the titles, both barometers also regard trust merely as one of the factors that influences corporate reputation, treating the latter as the larger umbrella construct to be managed, measured and protected.

The *Edelman Trust Barometer,* which sets out to measure reputation, uses dimensions related to those used in the RQ and as such it also does not provide a clear understanding of corporate trust and its relationship with corporate reputation. While the *Ask Afrika Trust Barometer* uses a broader range of criteria in its "… definitive corporate reputation benchmark" measure to determine trust levels in organisations, such as sustainability and perceptions of CEOs, the linkages and relationship between reputation and trust are not made clear (Ask Afrika, 2009; Edelman, 2010a).

Based on the underlying conceptual model of these measurement tools, trust is then regarded to be an antecedent of corporate reputation – a supposition that is challenged by this study, where corporate trust is posited to be an outcome of corporate reputation, and the definitive intangible asset that will help ensure an organisation's long-term economic sustainability. While the corporate reputation construct is regarded as important, this study suggests that a reputation that does not result in earning stakeholders' trust is insufficient to ensure an organisation's long-term sustainability.

Furthermore, none of these models and measurement tools differentiates between corporate trustworthiness and corporate trust. This study advocates that there is a fundamental difference between these two concepts, with trustworthiness defined as *an objective characteristic inherent in an organisation which makes it worthy of having its stakeholders' trust placed in it* (regarded as an antecedent of reputation and trust in this study), and trust defined as *stakeholders' subjective attitude, belief and optimistic expectation of an organisation* (regarded as an outcome of reputation in this study). This study contends that any conceptual model that does not distinguish between these two concepts, also in relation to their impact and role in corporate reputation, is incomplete.

Some of the existent literature also refers to the current gap in conceptualising the corporate trust construct (what it is, what its dimensions, drivers and variables are), without which this process cannot be effectively managed or measured. Butler (1991:647) observes that there is not sufficient agreement as to what the trust conditions or determinants of trust are that should be measured, and that "… there is no instrument for measuring an exhaustive set of them". In terms of using a trust model and measurement instrument as a governance tool, Hosmer (1995:380) cites Ring and Van de Ven in noting that "… the implications of trusting behavior in designing governance mechanisms are generally ignored".

Greenwood and Van Buren lll (2010:436) highlight the lack of a mechanism that can enable stakeholders, especially dependent stakeholders, to assess the trustworthiness of a for-profit organisation. Existing organisational reporting often only serves the interests of more powerful stakeholders, such as shareholders. Organisations can manipulate perceptions of trustworthiness through mechanisms like cause-related marketing and social disclosure, which may or may not be signifiers of true organisational trustworthiness (Greenwood & Van Buren lll, 2010:436). The need for a model, one that can be used to develop a valid measurement tool to independently determine a for-profit organisation's performance in this regard as determined by all its stakeholders subsequent to this study, is evident.

As a multi-disciplinary concept, there is a proliferation of definitions and explanations of trust as a general construct (McKnight & Chervany, 2001:1), yet very few of these address trust as a collective construct within a corporate context, and in relation to its association with reputation. (The difference between trust as a general vis-à-vis a collective construct is discussed in Chapter 4.) The main focus of many of the existing definitions and models of trust within a corporate context seems to be the field of electronic commerce (Einwiller, 2003:196; McKnight & Chervany, 2002:35; Mukherjee & Nath, 2003:5; Ratnasingham, 1998:313).

Similarly, despite the consensus about the importance and positive effects of a favourable reputation, as well as the expanding interest in and focus on reputation among researchers and practitioners, knowledge remains disparate about how reputation should be defined, what its key dimensions or drivers are, what the relationships between those are and how it should be managed and measured (Bromley, 2002:35; Helm, 2007:238; Lloyd, 2007:x).

Essentially, this study suggests that it is a possible lack of understanding – a lack of conceptual clarity – regarding the relationship between corporate reputation and trust that contributes notably to the fact that consensus concerning the core meaning and the building blocks of reputation and trust still eludes academics and leaders alike.

A comprehensive definition of trust as a corporate construct, as well as the dimensions and variables of corporate trust (including trustworthiness) in relation to corporate reputation, is then required in order to develop a conceptual model that will guide actions to manage and measure both of these corporate processes, particularly with the aim of using these to help ensure the enduring economic sustainability of an organisation.

1.1.2 Purpose statement

The purpose of this study is to explore the concept, dimensions and variables of trust, in relation to reputation, within a corporate context and a framework of corporate sustainability, in order to develop a conceptual model of the relationship between these two corporate constructs.

This purpose statement stems from the underlying world view of this study, which is based on general systems theory as the macro-theory, and on sociological systems theory as the particular paradigmatic perspective. As such, the key premise of this study is that the ability of a for-profit organisation (as a complex social system) to generate sustainable wealth over time and ensure its own long-term economic sustainability is related to its relationship with its entire stakeholder network. Since a for-profit organisation is dependent on its stakeholders' continued commitment and supportive behaviour, which in turn is held by this researcher to be dependent on the level of trust that its stakeholders have in the organisation, it is important to understand what influences and drives their perceptions and assessment of an organisation, and their decision to support it.

This study contends that a for-profit organisation can evoke its stakeholders' trust when it both *becomes* and *is seen to be* a trustworthy and ethical organisation. This highlights the importance of understanding the specific relationship between corporate trust and corporate reputation. The primary research objective is centred on the supposition that the nature of this conceptual relationship is not clear.

1.1.3 Methodological and theoretical orientation

The methodological framework of this study is discussed in greater detail in Chapter 6. However, as part of the introduction to this study, it is prudent to briefly explain its methodological orientation and to contextualise the term 'basic theoretical research' that was used in the abstract.

Basic research – also referred to as theoretical research – differs from applied or practical research in terms of its primary goal. Applied research aims mainly at description, at testing existing theory in order to use the data for immediate, practical problem-solving and application. Basic research on the other hand aims mainly at explanation, at building and advancing theory by investigating and explaining fundamental principles of a social phenomenon, particularly in order to explain the relationships between the variables. As such, both theory testing and theory building form an integral part of the normal cycle of research, and both are regarded to be empirical research (Bacharach, 1989:498,512; Emory, 1980:7,52-53; Meredith, 1995; Stanovich, 2007:106-107; Weick, 1989:498; Whetten, 1989:492).

The methodological orientation of this study then is basic research, aimed at contributing to building theory. While there are numerous ways in which to develop theory, the method that is used in this study is conceptual model development. As such, this study is a conceptual study aimed at clarifying existing theory and providing a new theoretical perspective on the nature and relationship between corporate reputation and trust as a contribution to theory building.

General systems theory, and in particular sociological systems theory, forms the macro-theoretical foundation of this study. While this is discussed in greater detail in Chapter 2 and Chapter 3, a brief overview of this paradigmatic perspective at this stage will position the social world view that influences the whole study.

As with a general system, a for-profit organisation as a complex social system consists of certain components (a collection of people, resources or concepts) and processes by which these components interact among themselves and with the environment to perform some identifiable function or to serve a goal. These components are interdependent, as well as dependent on the environment. Together, through their interaction, these components form something more than the sum of the parts (Littlejohn & Foss, 2005:40; Turban & Meredith, 1981:17; Von Bertalanffy, 1972:417).

A for-profit organisation has the ultimate goal of continuing to sustain and grow its economic performance. As a social system, the organisation is therefore dependent on efficient interaction (i.e. to do things right) between all its components and its social environment. However, this study contends that a for-profit organisation as a social actor in its own right needs to do more than focus on the interdependencies among its components. Instead, this study proposes that a for-profit organisation's continued economic success and survival is evidently based on the quality of its relationship with its stakeholders, representing its social environment. The quality of this relationship is determined by how *effective* that relationship is (i.e. is the organisation doing the right things) to evoke stakeholders' trust in the organisation (Narayanan & Nath, 1993:162).

This study regards corporate trust as a key strategy that can be used to improve, manage and measure the effectiveness of the organisation's relationship with its stakeholders (Luhmann, 1979:8). The rationale for this statement is explained in Chapter 2 (meta-theoretical foundation) and in Chapter 4, where the construct of trust in an organisational environment is discussed. This discussion positions trust from a sociological systems perspective and includes the work of Niklas Luhmann (a German sociologist and a prominent thinker in sociological systems theory). To this extent, trust is viewed as fulfilling a fundamentally functional role in social relationships within a corporate environment (Bachmann, 2006:394; Luhmann, 1979:8; Mishra, 1996:281; Nooteboom, 2002:5).

1.1.4 Research objectives

This is a conceptual study with a methodological focus on the role of models in theory construction. The primary research objective of this study is to conceptualise corporate trust in relation to corporate reputation, in order to develop a conceptual model depicting the relationship between corporate reputation and corporate trust.

In order to meet this primary objective, the nature and role of certain key constructs related to this objective first need to be systematically examined and addressed. As such, the secondary research objectives of this study are:

- To investigate the nature and meaning of the construct of trust within a corporate context, in relation to reputation, in order to develop a definition of corporate trust.
- To investigate the nature and meaning of the construct of trustworthiness within a corporate context, in relation to reputation and trust, in order to develop a definition and description of the characteristics of corporate trustworthiness.
- To investigate and disaggregate the key elements of reputation, in relation to the identity-trust relationship within a corporate context, in order to develop a definition and conceptualise the corporate reputation construct.
- To investigate the nature and meaning of the concept of sustainability, in relation to corporate trust, by examining the different organisational approaches towards sustainability based on the governance framework and stakeholder focus being applied, in order to propose a new framework of corporate sustainability with ethics as its underlying rationality.
- To identify the key elements of corporate trust, in relation to reputation, in order to propose a high-level process that can guide leaders to establish a sustainable, trustworthy reputation that will earn stakeholders' trust and therefore their support.
- To identify the dimensions and variables of measuring corporate trust, in relation to reputation, in order to develop a conceptual model that can be used as a guide to develop a valid Corporate Trust Index measurement subsequent to this study.

The role of the secondary research objectives is to allow for a methodical examination of the various constructs related to the core purpose and problem of this study. Using a funnel approach, these constructs are discussed and a number of frameworks and figures are used to summarise and clarify the constructs so as to guide the researcher's thought processes in order to provide a definitive holistic conceptual model depicting the relationship between the corporate reputation and corporate trust constructs as the overall and final outcome of this study.

1.1.5 Importance and potential contribution of the study

The main intention of this study is to contribute to theoretical development in the field of corporate trust and reputation management by providing a clear conceptual model of the relationship between the corporate trust and corporate reputation constructs, which will allow for clarification and a better understanding of the key elements and the interaction between these two corporate constructs.

A central objective of this study is also to illustrate the importance of corporate communication and contribute to theoretical development in the field of strategic communication management, by outlining and highlighting the management of and interplay between the key elements of reputation (reputation promise, culture, image) and the critical role of corporate communication as both the foundation of corporate identity and the overarching and primary mechanism with which a for-profit organisation can establish, demonstrate and express an authentic corporate identity via its behaviour and all its corporate communication and reputation-building activities.

This study further aims to contribute to the field of strategic management by providing a clear conceptual model of how to manage the relationship between the corporate trust and corporate reputation constructs, in order to highlight the key elements that the leaders of a for-profit organisation need to focus on in their quest to build a sustainable wealth-creating organisation. This will enable the development of a high-level guiding framework outlining the key processes that need to be followed in order to build an enduring corporate reputation that will earn stakeholders' trust, and therefore their commitment and support to help enhance the long-term economic performance and sustainability of the organisation.

In developing this conceptual model of corporate reputation and trust and its inter-relationship within a corporate sustainability framework, it is also posited that this study will contribute to the field of corporate governance and sustainability; particularly by moving away from the traditional triple-bottom-line model, where the focus is on trying to be environmentally conscious and charitably socially responsible in conducting business, to one where ethics is used as the underlying rationality and as the foundation for a for-profit organisation to be a trustworthy and responsible corporate citizen in everything it does.

Furthermore, it is held that the identification of the key dimensions and antecedents of corporate trust, in order to develop a conceptual model to explain the relationship between trustworthiness, reputation and trust, can serve as a blueprint to develop a valid Corporate Trust Index to measure stakeholders' trust in an organisation (as the conclusive outcome of how well the organisation is managing its reputation), subsequent to this study. While organisations currently have a multitude of measurement tools available to provide management information on issues such as performance, finance and compliance, these may not provide sufficient insight and understanding of the *outcome* of these practices, such as an improved corporate reputation and increased stakeholder trust.

Almost four decades ago, R. Edward Freeman argued that the interests and perceptions of all stakeholders, not just shareholders, need to be considered (Freeman, 1984:8-22). This led to the establishment of stakeholder theory (which is discussed in more detail in Chapter 2, section 7). This contention has since been reaffirmed by many authors, such as Friedman and Miles (2006:19); Hatch and Schultz (2008:151); Laplume, Sonpar and Litz (2008:1152) and Freeman, Harrison, Wicks, Parmar and De Colle (2010:xv).

Perrini and Castaldo (2008:1) also emphasise such an approach, and add that the success of managerial efforts should no longer be measured "… solely according to a shareholder perspective", but that leadership performance measures should also take into account how well the leaders are incorporating their adoption of a more holistic and comprehensive stakeholder value approach.

With its prescribed inclusive stakeholder approach, King lll (2009:13,21,103) makes a clear link between stakeholders' trust and support and the long-term sustainability of an organisation, and suggests that directors should measure the gap between organisational performance and stakeholders' perceptions (King lll, 2009:100).

Since trust is a main value driver that directly affects, and in turn is affected by, the quality of the organisation's relationship with its stakeholders, this researcher contends that stakeholders' trust in the organisation should be measured. This highlights the need for an outcomes-based measurement tool that can measure trust and will include a representative opinion of all the relevant stakeholders of a for-profit organisation.

The development of a theoretical framework in this study from which trust dimensions and variables applicable to the South African context can be selected, provides the opportunity to use this to develop a valid and reliable corporate trust measurement tool subsequent to this study, which could assist in contributing to the work of academics and practitioners, and in moving towards a national database of trust rankings regarding for-profit organisations in South Africa.

There is currently a perceived lack of conceptual clarity regarding the relationship between corporate trust and corporate reputation, particularly within a sustainability framework. Therefore the contribution of this study – providing a clear conceptual model of the relationship between corporate trust and corporate reputation – is deemed to be significant. It is envisaged that such a conceptual overview will have both theoretical and practical value; for academics, leaders of organisations, as well as senior corporate communication and reputation management practitioners.

1.1.6 Delimitations and assumptions

- ***Delimitations***

There are several delimitations in this study, related to the context, constructs, relationships and theoretical perspectives. First, the study, which is a conceptual study with a methodological focus on the role of models in theory construction, is limited to proposing a conceptual model of the relationship between corporate trust and corporate reputation, particularly in the context of a for-profit organisation. While this model will identify the trust dimensions and variables that can be used to develop a valid and reliable corporate trust measurement tool, the actual development of such a tool is outside the scope of this study.

In the second place, this study is limited to exploring trust as a corporate construct. While the nature of general and interpersonal trust is briefly outlined as background, the main focus is limited to corporate trust as a construct (Bachmann, 2006:405; Einwiller & Will, 2001:6; Kramer, 2010:84; Kramer, Brewer & Henna, 1996:357; McKnight & Chervany, 2001:2; McKnight & Chervany, 2002:35,43).

The third limitation relates to the focus of this study, which is confined to the context of for-profit organisations. This is informed by the general assumption that non-profit organisations enjoy much higher levels of trust, because they serve a cause larger than financial profit (Mackey, 2009:100). In contrast, for-profit organisations face a more complex challenge to build and sustain stakeholders' trust. This is substantiated by a number of factors. Pirson (2009:24) highlights the fact that the opportunistic profit motive is a true barrier to sustained high trust. Bakan (2004:140-143) argues that there is a fundamental problem in the capitalistic system that leads to ever decreasing trust. He observes that a growing number of citizens mistrust the capitalist system since it seems to multiply social problems. Surveys such as those done by Harris International (2005), the World Economic Forum (2006) and GlobeScan (2006) indicate that as of 2005, trust in global for-profit organisations had reached its lowest level since the tracking began in 2001 (Pirson, 2009:2-5).

In the fourth place, the study is limited from a theoretical perspective, specifically from a sociological systems theory perspective, and more particularly in terms of the two main areas of investigation: corporate trust and reputation, and the relationship of corporate communication with these two constructs. The theoretical perspective of this study is limited to exploring the trust construct, and corporate trust in particular, from a social perspective. An exploration of other trust constructs that are based in the disciplines of psychology, political science and economics (McKnight & Chervany, 2001:2; McKnight & Chervany, 2002:35,43) is then excluded from this study.

Consequently, and in line with the sociological systems theory with its focus on relationships, this study is limited to the relational approach within the paradigm of corporate reputation (Chun, 2005:93), which is used as a basis for conceptualising the corporate reputation construct.

The corporate communication perspective in this study is limited to the concept of the strategic role it fulfils in an organisation, particularly with regard to the management of an organisation's identity, reputation and stakeholders' trust. In particular, this study explores the concept of expressive corporate communication, which focuses on the role of communication to express and represent the organisation's authentic identity rather than to grab attention and manipulate impressions (Fombrun & Van Riel, 2004:177).

Since this is a conceptual study, the discussion of the constructs and the processes of implementing and managing these corporate elements is limited to a high level, dealing with the issues at a conceptual rather than a more practical level.

- ***Assumptions***

An assumption is a self-evident truth and must be valid for the research to be meaningful (Leedy & Ormrod, 2010:5). The assumptions made in this study relate to the construct of trust and its relationship with corporate reputation, and the role these corporate constructs play in the long-term economic sustainability of a for-profit organisation.

The first assumption made in this study is that there is a direct relationship between corporate trust and corporate reputation. It is further assumed that although it can take years to establish a good corporate reputation, that reputation can be destroyed in a matter of minutes due to a single act or incident that causes a break in the trust relationship that stakeholders have with an organisation (Keh & Xie, 2009:732). Inherent in this is the assumption that a trust relationship needs to be built with *all* the stakeholders of a for-profit organisation (Stout & Blair, 2001:28).

Furthermore, an assumption is made that any for-profit organisation that wants to ensure its sustainability in the future (to continue doing and growing its business) needs to consistently act in a way that will earn trust in the organisation and its leadership (King, 2009:26). The last assumption is that a definitive conceptual model of the relationship between reputation and trust will have strategic and practical value in the corporate world.

2 DEFINITION OF KEY TERMS

2.1 KEY TERMS TO BE DEFINED

Since the focus of this study is trust and its relationship with reputation within a corporate context, the following key terms are defined first: trust, trustworthiness, corporate, corporate trust, stakeholders, corporate sustainability and corporate reputation. This is followed by a definition of the terms that are related to the understanding of these key constructs as conceptualised in this study, i.e. corporate ethics, values, governance and responsible corporate citizenship.

In this section, as well as the rest of the document, the definition of a term – whether it is this researcher's own definition or one taken from the literature – is indicated in italics, in order to highlight the meaning of the term as it is applicable in this study.

2.1.1 Trust

Trust is regarded on the basis of four key elements: (1) a person who trusts (2) someone or something (3) in some respect, (4) based on a specific context (Nooteboom, 2002:38). As such, trust occurs in a particular relationship between two people, in which there is a trustor (the person who trusts) and a trustee (the person who is trusted), in some respect and within a specific context (Kramer, 1999:573; Kramer, 2010:84; Mayer, Davis & Schoorman, 1995:711; McEvily, Perrone & Zaheer, 2008:559; Nooteboom, 2002:38).

Trust is then defined in this study as *an optimistic expectation or belief of the trustor concerning the behaviour of the trustee in respect of that for which he is trusted, which influences the trustor's decisions and allows him to trust the trustee.* Even though the trustor is in a position of vulnerability, the trustor believes that he can rely on the statements, promises, as well as the moral character of the trustee to act in a manner that will also protect his own rights and interests.

Based on this, the trustor subsequently acts on his decision and engages in the trust-informed risk-taking behaviour, irrespective of his ability to monitor or control the trustee (Dietz & Den Hartog, 2006:559-560; Ingenhoff & Sommer, 2010:340; Lewis & Weigert, 2008:157; Linthicum, Reitenga & Sanchez, 2010:161; McEvily *et al.*, 2008:559; Mouzas, Henneberg & Naudé, 2007:1021; Swift, 2001:19). However, the trustor uses his trust in the trustee prudently, in the sense that he would withdraw his trust and support if his trust is violated (Wicks, Berman & Jones, 1999:103). Trust is therefore not sustainable if the trustee does not fulfil his duty to protect the interests of the trustor, thereby showing him to be unworthy of the trustor's trust (Greenwood & Van Buren lll, 2010:427).

2.1.2 Trustworthiness

The concepts of trust and trustworthiness are not the same, although they are intricately related, with the former depending upon an expectation of the latter (Casson & Della Giusta, 2006:346; Ingenhoff & Sommer, 2010:341; McEvily *et al*., 2008:559; Stout & Blair, 2001:17; Vanneste, Puranam & Kretschmer, 2011:14). Whereas trust is defined as *an expectation, a subjective attitude and belief that a trustor has about the trustee*, trustworthiness is defined as *an objective characteristic of the trustee which makes him worthy of the trustor's trust.* As with trust, trustworthiness is also confined to some respects, under certain conditions (Nooteboom, 2002:38).

The difference between these two concepts is then that perceived trustworthiness (trust) is a subjective belief that trustors have about the trustee, while trustworthiness relates to the characteristics of the trustee, which show him to be worthy of the trustor's trust (Casson & Della Giusta, 2006:346; Li & Betts, 2004:7; McEvily *et al*., 2008:559). Trustworthiness is believed to be a key factor that influences trust, which means that trust is not sustainable without trustworthiness (Li & Betts, 2004:7; McEvily *et al*., 2008:559). Since the terms 'trust' and 'trustworthiness' are two distinct constructs, they cannot be used interchangeably.

2.1.3 Corporate

The term 'corporate' is used in this study either to refer to the specific business environment of a for-profit organisation, namely the overall commercial environment in which the private sector operates (i.e. a corporate citizen), or to that which is applicable to the specific for-profit organisation (i.e. its corporate culture). In this study a for-profit organisation (or corporation) is regarded as *an economic institution in the private sector, but also as a corporate citizen that has social and moral standing in society, with all the responsibilities attached to that status* (King, 2009:23). As a system, an organisation is composed of interdependent components in some relationship to one another. In using the systems theory as the macro-theoretical foundation for this study, a clear distinction is drawn between 'organisation' (the act of organising) and 'an organisation' (a social system).

2.1.4 Corporate trust

Corporate trust, which is regarded as an economic imperative for the long-term economic sustainability of a for-profit organisation, occurs in a relationship (albeit on a less personal level) between a for-profit organisation, regarded as a social actor in its own right, as the trustee and its stakeholders as multiple trustors (Greenwood & Van Buren lll, 2010:429; King, 2009:11,12; King *et al*., 2010:290; Kramer, 2010:82; Moon & Muthuri, 2008:4; Nooteboom, 2002:38), where stakeholders trust the organisation to act in an ethical, trustworthy and socially responsible manner in the course of its commercial activities.

Corporate trust is then defined in this study as *a subjective attitude, belief and optimistic expectation by a stakeholder or group of stakeholders that their dependence on the for-profit organisation will not be abused, which influences their decisions and allows them to support the organisation.* This belief is based on the organisation's consistent demonstration that it has voluntarily accepted its moral duty to act in a manner that is ethically justifiable and socially responsible. It does this by taking morally correct decisions and actions, based upon ethical principles of analysis to protect the rights and interests of all its stakeholders to the good of society, in any joint endeavour and economic exchange, as well as in the manner that it conducts its overall operations as a responsible corporate citizen. Based on this belief and expectation, stakeholders will then commit to and actively support the organisation (Einwiller & Will, 2001:6; Luhmann, 2000:103).

Trust can be described as *an attitude that allows for risk-taking decisions.* Based on this belief, the stakeholders subsequently act on their decision and engage in the trust-informed risk-taking behaviour, irrespective of their ability to monitor or control the organisation (Dietz & Den Hartog, 2006:379,558; McEvily *et al*., 2008:559; McKnight & Chervany, 2002:45; Mouzas *et al*., 2007:1021; Sichtmann, 2007:1001; Swift, 2001:20).

At the same time, it is posited that a for-profit organisation is also vulnerable to its stakeholders' actions, in that it needs to earn its stakeholders' trust and support to be successful in its business operations in a more complex context marked by less familiarity (Kramer, 2010:84). Since stakeholders, who use their trust in the organisation prudently (Wicks *et al*., 1999:103), will withdraw their trust and support if their trust is violated, corporate trust is then not sustainable if the organisation shows itself to be unworthy of stakeholders' trust (Greenwood & Van Buren lll, 2010:427).

2.1.5 Stakeholders

Stakeholders are defined as *any person or group who has a direct interest, involvement or investment in an organisation, who can affect the organisation and its operations, or who can be affected by the organisation, its decisions and operations* (Hatch & Schultz, 2008:192-193; King, 2009:100; Steyn & Puth, 2000:5).

A stakeholder is therefore not just regarded as a person or group of people "… who may benefit from or be harmed by the actions of the organisation" (Davies, Chun, Da Silva & Roper, 2003:58-59), but as someone who can *also* either hinder or assist the for-profit organisation in its endeavours. An organisation therefore has multiple stakeholders, the list of which will depend on the business that the organisation is in (Chun, 2005:93). Each stakeholder group will have different needs and expectations of and perspectives on the organisation (Hatch & Schultz, 2008:193), which calls for an organisation to achieve a balance among the stakeholders' interests in managing its business (Marcoux, 2008).

Stakeholder theory holds that the interests and perceptions of all stakeholders, not just shareholders, need to be considered (Freeman, 1984:8-22). The establishment and key tenets of stakeholder theory are discussed in more detail in Chapter 2, section 7.

2.1.6 Corporate sustainability

The concept of corporate sustainability is expanded in this study beyond the generally known economic, social and environmental principles to include the strategic adoption of a proactive ethical stance by the leaders of a for-profit organisation (Adams, 2006:2; Bañon Gomis *et al*., 2011:180; Jones, 2007:197; King, 2009:22; Paine, 1994:106). This is based on a key premise of this study, namely that a for-profit organisation's ability to generate sustainable wealth and ensure its own commercial sustainability over time is dependent on its stakeholders' continued commitment and supportive behaviour, which in turn is dependent on the level of trust its stakeholders have in the organisation.

Furthermore, this study acknowledges that an organisation's responsibilities extend beyond increasing profit for shareholders (Bandsuch, Pate & Thies, 2008:102-103; Moss Kanter, 2011:68), to include an ethical responsibility towards multiple stakeholders (Gao & Zhang, 2006:724; Stout & Blair, 2001:28), since the organisation's sustainability is seen to be dependent on the continued support of its stakeholders (Perrini & Castaldo, 2008:1). This is in line with the inclusive stakeholder approach as set out in King lll (2009:10;100), as well as the call for effective leadership based on an ethical foundation in order to ensure the sustainability of a for-profit organisation (King, 2009:20) by increasing the levels of stakeholders' trust (Moon & Muthuri, 2008:42,59).

Corporate sustainability is defined in this study as *a for-profit organisation's ability to do, and continue to do, business and achieve its economic success – its profit and growth – in a manner that is maintainable, viable and wholly morally justifiable, now and in the future, since it has adopted ethics as its core principle to guide conduct in the organisation.* A sustainable organisation conducts its present business in such a way that it does not put the likelihood of its own sustained existence and its capacity to meet its future needs at risk (King, 2009; Moss Kanter, 2011).

This study contends that this is possible when an organisation meets the legitimate interests of its multiple stakeholders through its consistently ethical and trustworthy behaviour in line with its ethical, value-based identity in order to earn the trust and support of its stakeholders, and by establishing an overall reputation as an ethical, trustworthy and responsible corporate citizen; centred in the recognition that any of its stakeholders can affect it in its achievement of long-term economic sustainability (Bañon Gomis *et al*., 2011:173; Baumgartner, 2009:103; Perrini & Castaldo, 2008:1; Pirson, 2009:8; Vanneste *et al*., 2011:23).

2.1.7 Corporate reputation

This study regards corporate reputation to be the opinion that stakeholders form and the assessment they make of an organisation, rather than their mere awareness of it (Chun, 2005:105; Fombrun & Van Riel, 2003:230). In this study, corporate reputation is regarded as a means to an end – to lead to stakeholders' trust and therefore to their continued support and commitment to helping ensure the long-term sustainability of the organisation.

Corporate reputation (one that will lead to stakeholders' trust and thus to their continued support and commitment to ensuring the long-term sustainability of the organisation) is defined by this researcher as *the collective assessment that all relevant internal and external stakeholders make of the trustworthiness of an organisation; of its character, which influences their decision to trust and their actions to support the organisation* (Chun, 2005:105; Fombrun & Van Riel, 2003:230).

This study contends that an organisation's trustworthiness is demonstrated by its intrinsic normative characteristics as well as the authenticity with which it consistently acts in line with its ethical, value-based identity, where stakeholders' opinion of the organisation's character has developed over time based on their direct experiences with the actual behaviour of the organisation, as well as any other forms of communication and symbolism that provide information about the organisation's actions, which shape what they believe the organisation stands for (who and what it is) and the associations they make with it, and about its ability to fulfil their expectations in the future, based on its past and present actions (Barnett & Hoffman, 2008:4; Barnett, Jermier & Lafferty, 2006:36; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29).

Corporate reputation is then effectively seen to be primarily about managing what happens inside an organisation first, about how authentically it manages its own identity by aligning and demonstrating the correct behaviour internally, before it communicates its intent and character externally to its stakeholders, in order to familiarise its stakeholders with who and what the organisation is (Luhmann, 1979:19; Pirson, 2009:9) and so mould and influence their perceptions and opinions (Chun, 2005:105; Fombrun, 1997:10; Fombrun & Van Riel, 2004:260) about the trustworthiness of the organisation.

In this study a good corporate reputation is regarded to be the result of consistent trust-*worthy* (own emphasis) behaviour (Hosmer, 1995:386), which then influences and reinforces the expectations, and therefore the trust and ongoing supportive behaviour, of its stakeholders. Trustworthiness is then regarded as an attribute of reputation, which in turn is regarded as an antecedent of trust (Nooteboom, 2002:141; Casson & Della Giusta, 2006:352).

2.1.8 Corporate ethics

In this study corporate ethics is defined as *the set of moral principles or values, the guiding philosophy and standards that a for-profit organisation has and uses to direct its commercial activity, decision-making, actions and business operations, to ensure that it acts fairly, honestly and responsibly towards all its stakeholders in everything it doe*s (Cacioppe *et al*., 2008:682; Cartwright & Craig, 2006:743; Murphy, 2005:183; Wood, 2002:63). Ethical traits that are commonly described as character, honesty, or authenticity constitute an important factor of trust (Pirson, 2009:8). It is held that these values are sanctioned by authorities both external and internal to the organisation, such as the government, legal or regulatory bodies, society, external stakeholders and employees as internal stakeholders.

This set of moral principles is seen to constitute part of the social contract that an organisation is subject to, which provides the bond between the for-profit organisation and its stakeholders, and which then gives the organisation the licence to operate (Fombrun & Foss, 2004:288; Jones, 2007:52). It is held that an organisation displays ethical behaviour when, in certain situations where it is morally the right thing to do, it places the interests of its stakeholders, who are trusting, before its own interests (Hosmer, 1995:383; Marsden & Andriof, 1998:338).

It is posited that a for-profit organisation that violates its social contract in ethical respects will lose the trust of its stakeholders, and therefore their support (Jones, 2007:51). From a corporate sustainability perspective, it is therefore held that the consideration of corporate ethics should lie at the core of an organisation's goals, decision-making and behaviour, as it adopts a proactive ethical stance, instead of mere compliance (Cartwright & Craig, 2006:743; Ethics Resource Center, 2009; Jones, 2007:197; Paine, 1994:108; Swift, 2001:19).

2.1.9 Corporate values

Corporate values, which form part of an organisation's larger corporate culture architecture, are defined as *the set of core beliefs, principles or standards that affect the employees' perspective of their organisation, themselves and others* (King, 2009:119).

Values represent a level of significance between emotion and meaning and are a socially constructed phenomenon, which relates both to identity and the establishment of behaviour within the organisation (Bucklund *et al*., 2012). An organisation's value-set translates into behavioural commitments or principles and behavioural directives, such as standards, norms and guidelines (King, 2009:119). Since values exert a major influence on the behaviour of individuals, it is assumed that an organisation is capable of changing the behaviour of its employees by changing the value-system that guides the decisions and actions they take on a daily basis in the fulfilment of their organisational tasks. It is further posited that an organisation that bases its value-set on a strong ethical foundation will be able to create an authentic trustworthy organisation (Di Maria & Iwata, 2007:16,29).

2.1.10 Corporate governance

Corporate governance is generally regarded as *the framework of rules, practices, systems and processes of management that are used to guide the manner in which a for-profit organisation is managed and with which the organisation's behaviour and conduct is governed, to ensure responsibility, accountability and transparency in the organisation's relationship with all its stakeholders* (Bucklund *et al*., 2012; King, 2009:10,13). Such a framework consists of explicit and implicit contracts between the organisation and its relevant stakeholders, which clarify the distribution of responsibilities and procedures for reconciling conflicting interests in accordance with their duties and for proper control, including using the flow of information as a system of checks and balances (Luthra, 2012).

The definition of corporate governance in this study incorporates the view that it is seen as *"… the practical expression of an organisation's ethical standards"* (King, 2009:21). It is then held that the sustainability of a for-profit organisation is dependent on the adoption of a corporate governance framework based on an ethical foundation, and on a leadership characterised by ethical values and adherence to its moral duties, focused on directing the organisation's strategies and operations with a view to achieving sustainable economic, social and environmental performance to the benefit of multiple stakeholders (King, 2009:10).

The corporate governance perspective in this study is then expanded to include a view that relies on a proactive ethical stance model, which recognises an organisation's responsibility to multiple stakeholders (Cartwright & Craig, 2006:743; Jones, 2007:197).

2.1.11 Responsible corporate citizenship

The concept of corporate citizenship emanates from the fact that an organisation is regarded as a social actor in its own right in this study (Greenwood & Van Buren lll, 2010: 429; King, 2009:11,12; King *et al*., 2010:290; Kramer, 2010:82; Marsden & Andriof, 1998:329; Moon & Muthuri, 2008:4). This view implies that a for-profit organisation as a corporate citizen is subject to the same laws and moral expectations that any other citizen in society is subject to, and it can therefore be held accountable for its actions on a legal and moral basis (King & Whetten, 2008:198; Marsden & Andriof, 1998:331).

An organisation is a responsible corporate citizen when it accepts its ethical obligation and moral responsibility for its impact on society and the environment, instead of just delivering increased profits to its shareholders (Bandsuch *et al*., 2008:102-103; Moss Kanter, 2011:68; Swift, 2001:19). As a responsible corporate citizen, a for-profit organisation will adopt a holistic approach to economic, social and environmental issues as an integral part of its core business strategy (King, 2009:24; Marsden & Andriof, 1998:330) and it will consider the interests of multiple stakeholders in its actions (Cartwright & Craig, 2006:743; Jamali, 2006:810; Moon & Muthuri, 2008:62). It will also measure its performance in terms of the value it creates and the manner in which it operates to build an enduring institution over time (Moss Kanter, 2011:68).

Responsible corporate citizenship in this study refers to *the ethical relationship of responsibility between the organisation, its stakeholders and the society in which it operates, based on a holistic approach to economic, social and environmental issues as an integral part of its core business strategy and the consideration of the interests of multiple stakeholders in its actions* (Cartwright & Craig, 2006:743; Fombrun & Foss, 2004:288; Jamali, 2006:810; King, 2009:20,24; Marsden & Andriof, 1998:330,333; Moon & Muthuri, 2008:62).

3 TABLE OF ABBREVIATIONS

The following table contains an explanation of the abbreviations used in this study:

Table 1: **Abbreviations used in this document**

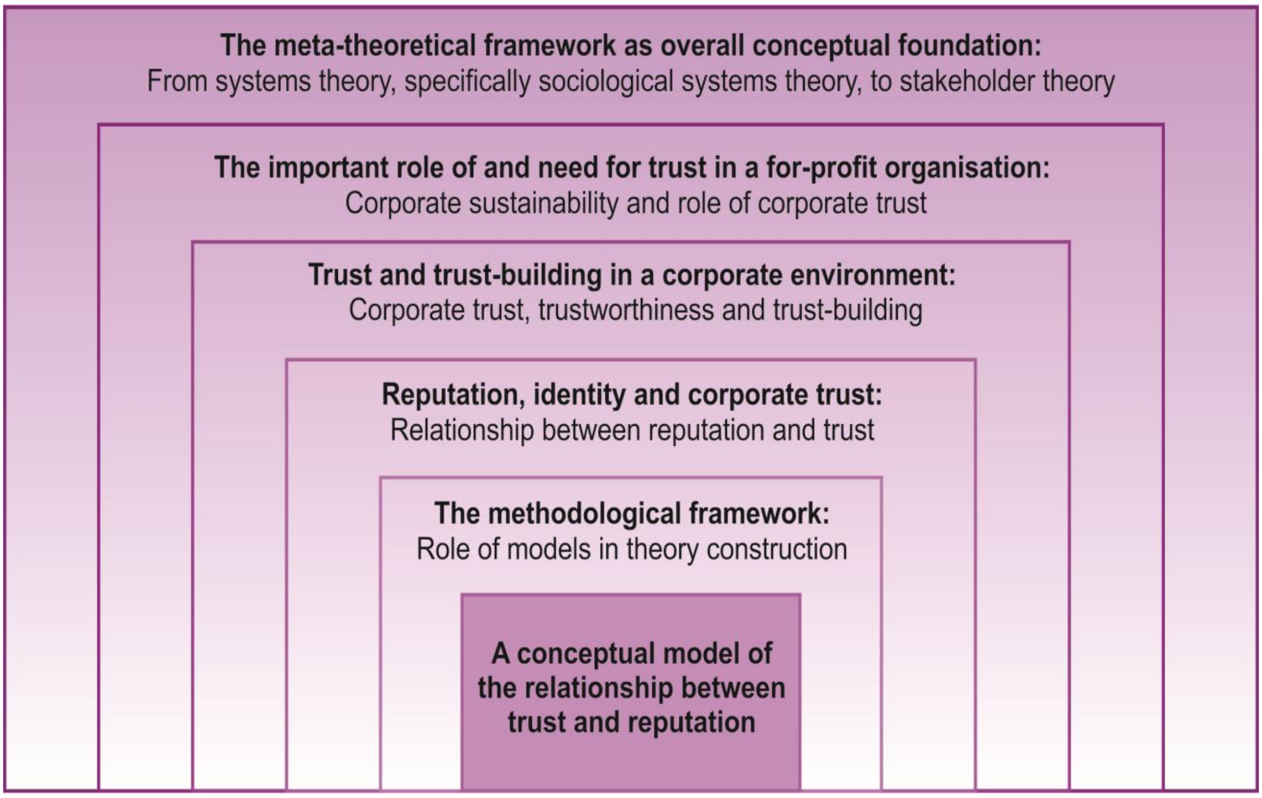
Abbreviation	**Meaning**
CSI	Corporate social investment
CSR	Corporate social responsibility
GRI	Global Reporting Initiative
IUCN	International Union for Conservation of Nature
IISD	International Institute for Sustainable Development
RQ	Reputation Quotient
Sapa	South African Press Association

4 CONCEPTUAL FRAMEWORK FOR LITERATURE REVIEW

In conceptualising trust within a corporate context in South Africa, the *King Code of governance principles* (King lll), which was published in 2009 by the Institute of Directors in Southern Africa, is used as pivotal point of departure since it provides the context for this study. A central theme in King lll is that it highlights the key role of leadership, the board members and directors and their key challenge of ensuring the sustainability of their organisation (King, 2009:12,13). One important way in which they can do this is to protect their organisation's reputation, its unique identity and character that it is known for, which is described as its most significant asset, and to build trust in the organisation (King, 2009:22).

The conceptual framework of this study is outlined in Figure 1, and indicates how the literature review is conducted. First, the meta-theoretical framework – from systems theory to stakeholder theory – provides the overall conceptual foundation for this study. Second, the role of and need for trust is positioned in a corporate sustainability context. In the third place, the key constructs of corporate trust and corporate trustworthiness are conceptualised, to explore how an organisation can meet the sustainability need with corporate trust. Next, corporate reputation is conceptualised within a social identity theory framework, in order to make the link between stakeholder identification with an organisation, reputation and trust. Finally, the relationship between corporate trust and reputation is discussed and illustrated in a conceptual model of the relationship between these two constructs.

Figure 1: The conceptual framework of this study



4.1 OUTLINE OF CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

4.1.1 <u>The meta-theoretical framework as overall conceptual foundation</u>

The meta-theoretical framework of this study is provided in Chapter 2. In this chapter the theoretical foundation is laid for all the key constructs. The literature review starts with a focus on the systems theory, in particular sociological systems theory, which forms the underlying core of the conceptual theoretical foundation of this study. This allows for the positioning of a for-profit organisation as a complex system that is dependent on its social environment – its stakeholders – for its success and survival, and on the critical role that corporate trust and corporate reputation fulfil in this process.

An overview of literature related to the theory of organisations is then used to provide the theoretical framework for the corporate construct and environment, in particular to contextualise the for-profit organisation in the twenty-first century as an economic institution firmly embedded within a social context and societal issues, where culture, values and norms play a critical role.

This provides the link to present the theoretical basis for the constructs of corporate trustworthiness and trust, and literature related to social systems theory and the theory of action is reviewed to contextualise these constructs within a corporate environment. The literature review related to social theory explores the role of a for-profit organisation as a social actor in its own right, as a corporate citizen that can be held accountable for its actions on a legal and moral basis.

Following this, literature related to the theory of action and decision theory is used to consider the role of values and ethics as essential and beneficial economic attributes of a for-profit organisation, thus accentuating the pertinent role of trust in a corporate environment in the twenty-first century. Since organisational or corporate identity is regarded as the foundation of corporate reputation (King & Whetten, 2008:193), an overview of identity theory is then provided to serve as the theoretical basis of the reputation construct.

This theoretical chapter is concluded with a literature review of stakeholder theory, to be used as the theoretical foundation for the reputation and stakeholder constructs in this study, and to contextualise stakeholders as the key role players who influence a for-profit organisation's long-term economic success. This concludes the argument that a for-profit organisation has to earn its stakeholders' trust, by becoming a trustworthy, ethically responsible corporate citizen, if it wants to ensure its own corporate sustainability.

4.1.2 The important role of and need for trust in a for-profit organisation

The macro-perspective on the corporate environment and a for-profit organisation as a social system is followed by a focus on sustainability, so as to highlight the important role of and need for trust as a social event within a corporate environment.

Since this study argues that stakeholder trust is essential to a for-profit organisation's long-term corporate and economic success and viability, Chapter 3 focuses on an overview of the King lll philosophy as a corporate governance framework based on an ethical foundation. The concepts of responsible corporate citizenship, corporate social responsibility and corporate social investment are briefly outlined in this chapter. Next, the sustainability construct is discussed, to contextualise its development, the expectations that for-profit organisations face in the twenty-first century and the role of and need for corporate trust within a sustainability framework.

4.1.3 Trust and trust-building in a corporate environment

In Chapter 4 trust is positioned as an economic imperative. The rationale underlying this proposition is offered at the start of the chapter to emphasise the need for and importance of trust in a corporate environment, before the detailed discussion of the constructs of trust and corporate trust.

The focus is primarily placed on literature from a sociological perspective, related to the current definitions and conceptualisations of trust as a general construct, including its nature, dimensions and key elements and the relationship between trust and trustworthiness. This is followed by a review of literature that conceptualises higher levels of trust that denote a collective attribute, involving multiple actors and contexts, which presents an option to extend the general construct to a corporate environment.

To be able to conceptualise the construct of corporate trust, current literature is reviewed in order to define and describe the nature, key elements, functions, benefits of and barriers to corporate trust. In exploring the sources and antecedents of corporate trust, the literature review turns towards exploring the key factors that a for-profit organisation has to implement if it wants to foster and earn enduring stakeholder trust in order to ensure its own long-term economic success and sustainability.

4.1.4 Corporate reputation, identity and the relationship with corporate trust

In Chapter 5 the existent literature is reviewed in order to conceptualise corporate reputation, particularly from a relational perspective (Chun, 2005:93), which is used as a basis for conceptualising and proposing a revised reputation management approach, adapted from the *Vision-Culture-Image (VCI) Alignment model*, as developed by Hatch and Schultz (2008:11). In this chapter, literature related to the current definitions, elements and attributes of reputation is used to guide the development of a definition of corporate reputation in relation to corporate trust.

The key elements of reputation (reputation promise, culture, image and corporate identity) are outlined, and a revised approach to corporate reputation is suggested. This chapter also includes an explanation of the relationship among the corporate identity, reputation and trust constructs, as conceptualised by this study. A functional understanding of this relationship is regarded as vital to inform the development of a conceptual model of the relationship between corporate trust and corporate reputation.

4.1.5 An overview of the content of Chapters 6, 7 and 8

Chapter 6 provides an overview of the methodological focus of this study. Since this is a conceptual study, the role of models, particularly conceptual modelling, in the development of theory is outlined.

Chapter 7 provides the conceptual model depicting the specific relationship between corporate reputation and corporate trust as the outcome of this study. In preparation for the development of this conceptual model, the key concepts related to the core purpose and problem of this study (as discussed in Chapters 3, 4 and 5) are first summarised and depicted by means of a number of tables, frameworks and figures in Chapter 7. Using this funnel approach serves to clarify this researcher's thought processes towards the development of her holistic conceptual model.

Following this, the definitive conceptual model of the relationship between corporate trust and corporate reputation is presented as the overall and final outcome of this study. This chapter concludes with an evaluation of the proposed model and the theoretical contribution made by this study, using criteria as set out in existent literature.

Chapter 8 provides the conclusion and recommendations arising from this study.

4.2 DEMARCATION OF STUDY

The outline of the study is then as follows:

- Chapter 1: Orientation and general background to the problem and its setting
- Chapter 2: The meta-theoretical framework as overall conceptual foundation: from systems theory to stakeholder theory
- Chapter 3: Sustainability within a corporate environment
- Chapter 4: Trust, trustworthiness and trust-building in a corporate environment
- Chapter 5: Corporate reputation, identity and the relationship with corporate trust
- Chapter 6: The methodological framework: role of models in theory construction
- Chapter 7: A conceptual model of the relationship between reputation and trust
- Chapter 8: Conclusion and recommendations

CHAPTER 2

THE META-THEORETICAL FOUNDATION:
FROM SYSTEMS THEORY TO STAKEHOLDER THEORY

"The whole is more than the sum of its parts"
– Aristotle

1 INTRODUCTION: TRUST A PREREQUISITE FOR SUSTAINABLE SYSTEMIC BEHAVIOUR

This study contends that corporate trust is an essential prerequisite for any for-profit organisation that wants to enable and safeguard its long-term economic and organisational performance sustainably in a competitive environment (Ingenhoff & Sommer, 2010:339). In essence, corporate trust is regarded as an outcome of the systemic behaviour of a for-profit organisation, as a result of the processes by which the organisation and its various components interact with, relate to and influence one another as well as the organisation's environment (Kramer, 1999:570).

To this extent, the relevant elements of a for-profit organisation (i.e. its standing in society, identity and processes), the relationship between the organisation and all its stakeholders, the strategic alignment of the organisation's actions with the expectations of all its stakeholders, and the impact that all of this has on how stakeholders perceive the organisation and on their decision to trust the organisation, are considered and examined in this study.

A key principle of King III is that the Board should safeguard their organisation's sustainability by ensuring that the "… company is and is seen to be" a responsible corporate citizen by all its stakeholders (King, 2009:22). Since this study construes trust as being the outcome of consistent, trustworthy behaviour (i.e. how it *is*), which is aligned with the organisation's self-presentation to its stakeholders (i.e. how it is *seen*), the social systems theory is located at the core of the assertions made in the study, and trust is posited as the outcome of consistent systemic organisational behaviour.

2 OUTLINE OF CHAPTER CONTENT

This chapter provides the meta-theoretical framework as the overall conceptual foundation of this study to position the corporate environment in which a for-profit organisation functions as a social environment, one in which corporate trust plays an essential role. Since this is quite a comprehensive chapter, an overview of the discussion of each theoretical framework is provided prior to the discussion itself.

First, the systems theory is positioned and explored as the macro-theory that underpins all the ancillary theories that are applied in this study, in order to position a for-profit organisation as a social system. This discussion includes an overview of the basis and key principles of systems theory, followed by an outline of the organisation as a complex and contrived social system. The delineation of the for-profit organisation as the system to be investigated in this study, one which is capable of acting purposefully, serves as a foundation to contextualise the ability of an organisation to build trust in itself.

Secondly, the theoretical foundation for the corporate construct is conceptualised by using the theory of organisations as basis. This discussion starts off with an overview of the early mid-twentieth century views, which had a broader social and political perspective on commercial organisations, in order to make the link with the conceptualisation of corporate trust and sustainability as posited in this study. Next, a very brief overview is given of the views of the theory of organisations that became more prominent in the latter part of the twentieth century, merely to highlight how the theory became disconnected from broader societal issues during this time. The revival of these issues from the 1990s onwards is then noted, with an introduction of the new model of structuralism, which focused prominently on the role of values, ethics, cultural processes and meaning systems that emerged in the theory of organisations from the 1990s.

Thirdly, the theoretical conceptual foundation for the trust construct is provided. Grounded in the systems and social systems theory, trust is conceptualised in this study as a sociological event. Following this introduction of trust as a social event, an overview to position trust and trustworthiness within the corporate environment is provided, by conceptualising a for-profit organisation as an independent, authoritative and purposeful social actor in its own right, which can be held accountable for its actions on a legal and moral basis, as well as a social entity whose existence is dependent on its interactions with its environment. This locates the central role that internal and external stakeholders, as key actors who interact systemically with the for-profit organisation, play in the formation of corporate trust. The theory of action and decision theory as a specific approach to action theory is reviewed to contextualise the role of ethics in an organisation, and to make the link between the theory of organisations and trust.

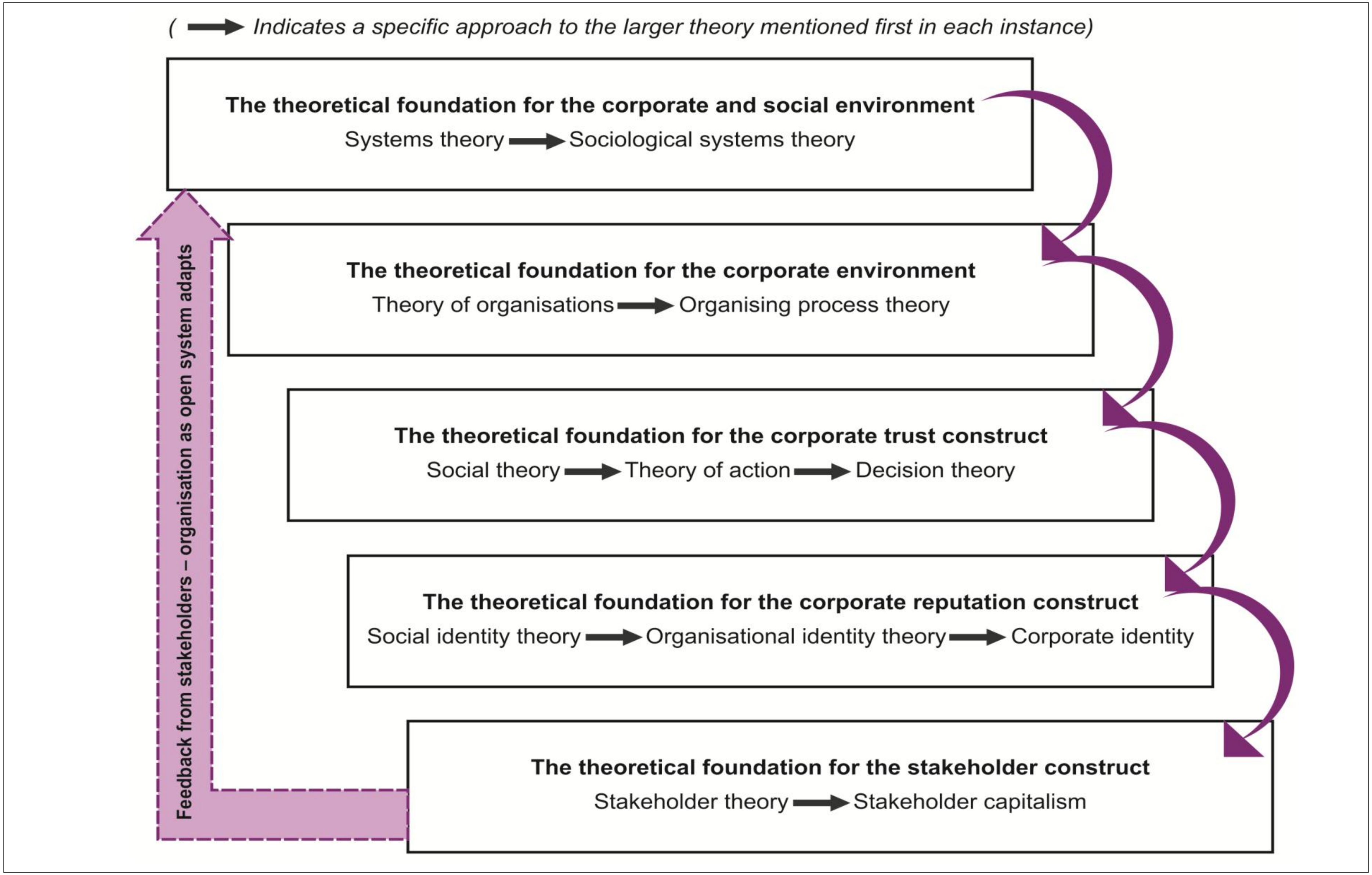
In the fourth place, an overview of identity theory is provided to serve as the theoretical conceptual basis of the reputation construct, since corporate identity is regarded as the foundation of corporate reputation (King & Whetten, 2008:193). Using the perspective of the organisation as social actor, the link between a for-profit organisation's legitimacy and reputation is explored to ground the reputation construct theoretically. The specific causal link between identity, reputation and trust is then briefly discussed, serving as preamble to a more detailed discussion of the reputation construct in Chapter 5.

Lastly, and to conclude this chapter on the theoretical conceptual foundation, stakeholder theory is reviewed. This provides a sound conceptual bridge between systems (specifically sociological systems) theory as macro-theory and the corporate trust construct in this study, and contextualises the key role that stakeholders play in influencing an organisation's long-term economic success and viability.

By meaningfully assimilating stakeholder theory into the concept of a for-profit organisation as a socially engineered system – one that is capable of purposive action and change – the argument that a for-profit organisation has to earn its stakeholders' trust by becoming a trustworthy, ethically responsible corporate citizen if it wants to ensure its own corporate sustainability, is brought full circle.

Figure 2 provides a summary outline of the meta-theoretical framework as the overall conceptual foundation of this study, indicating the flow from systems theory as the macro-theory to the ancillary theories.

Figure 2: A summary outline of the meta-theoretical framework as the overall conceptual foundation of this study – from systems theory to stakeholder theory



3 SYSTEMS THEORY AS MACRO-THEORETICAL FOUNDATION

"The whole is more than the sum of its parts." This dictum, which captured Aristotle's world view with its holistic and teleological notions, forms the basis of the general systems theory that was developed by Ludwig von Bertalanffy in the 1930s (Von Bertalanffy, 1950:155; Von Bertalanffy, 1972:411). It means in brief that in order to understand an organised whole one must know both the parts and the relations between them (Von Bertalanffy, 1972:411).

3.1 OVERVIEW OF THE SYSTEMS THEORY DISCUSSION

As a macro-theory, systems theory, and particularly sociological systems theory, lays the foundation for the theoretical framework that is applied in this study to examine and conceptualise the corporate trust construct, and its relationship with reputation and stakeholder management in a for-profit organisation as a social system. The basis of systems theory is discussed first, followed by an overview of the key principles of systems theory and a description of the organisation as a social system, before the theoretical foundations for the corporate, trust and stakeholder constructs are discussed later in this chapter.

3.2 BASIS OF THE GENERAL SYSTEMS THEORY

The introduction of the concept of 'system' as a model of general nature represented the introduction of a new holistic paradigm, which was in contrast to the analytic, mechanistic, linear-causal paradigm of classical science and world view that was prevalent until then (Von Bertalanffy, 1950:165; Von Bertalanffy, 1972:421).

3.2.1 <u>Definition of a system in systems theory</u>

A system can be defined as *"… a set of elements standing in interrelation among themselves and with the environment which together, through their interaction, form something more than the sum of the parts"* (Littlejohn & Foss, 2005:40; Von Bertalanffy, 1972:417). Fundamentally, a system can therefore only be explained as a totality (Kast

& Rosenzweig, 1972:450). Von Bertalanffy (1972:422) concurs that an object (and in particular a system) "… is definable only by its cohesion in a broad sense, that is, the interactions of the component elements".

This means that a system is a whole that cannot be taken apart without the loss of its essential characteristics, and that the parts of the system should be studied and explained in terms of the whole, instead of explaining the whole in terms of its parts (Narayanan & Nath, 1993:56; Von Bertalanffy, 1972:415).

3.2.2 Classical versus functional systems theory

Dynamic systems theory, which is concerned with changes of systems in time, uses two principal ways of description: internal and external (Von Bertalanffy, 1972:417). Internal description, or classical systems theory, is fundamentally structural and it aims to describe the system's behaviour in terms of its set of *n* measures (or state variables) and their interdependence.

External description is more functional and is used to describe the system's behaviour in terms of its interaction with its environment (Von Bertalanffy, 1972:417,420). The latter approach is applied in this study. The functional system that will be examined in this study is the organisation itself, in particular a for-profit organisation. Before discussing a for-profit organisation as a complex social system, a brief overview is given of some of the key concepts of general systems theory.

3.3 KEY CONCEPTS OF GENERAL SYSTEMS THEORY

3.3.1 Open versus closed systems

Systems can be considered as being either open or closed, although as Kast and Rosenzweig (1972:450) point out, it is never an absolute state but rather a relative one. An open system is in a dynamic relationship with its environment and as such it exchanges information, energy or material with its environment. To this extent, biological and social systems are then regarded as inherently open systems (Kast & Rosenzweig, 1972:450). As a social system, a for-profit organisation is therefore regarded as an open system, one that is capable of interacting actively and decisively with its environment.

3.3.2 Structure of a system

Hierarchical relationships between systems form part of the basic concept of a system, and it simply means that any system consists of sub-systems of a lower order, and in turn it is also a part of a higher supra-system (Kast & Rosenzweig, 1972:450; Von Bertalanffy, 1950:158). In systems thinking, the structure of the system is realised in the pattern of interrelationships among key components of the system. These systemic structures are often invisible (Senge, 1990:90).

A for-profit organisation has many sub-systems, such as departments, processes and individual employees, and as a system it also forms part of society as a higher order system. The structure (i.e. the formation and development) of an organisation as a socially engineered system is therefore dependent on the establishment and nature of its interactions and relationships with its internal sub-systems and society as its external supra-system.

3.3.3 Permeable boundaries of an open system

Even though a system may be regarded as open, it still has boundaries that separate it from its environment and broader supra-system. However, open systems have permeable boundaries, whereas closed systems characteristically have impenetrable and rigid boundaries. While boundaries are relatively easily defined in physical and biological systems, it is much more difficult to delineate clear boundaries in social systems, such as organisations (Kast & Rosenzweig, 1972:450).

As an open social system, a for-profit organisation’s boundaries are penetrable. These boundaries range from physical to intellectual boundaries, i.e. from its physical buildings, which people can enter and exit, to its conceptual strategy and organisational goals, which can be influenced and changed by input received from its sub-systems and/or supra-system external to the organisation. It then also stands to reason that this permeable characteristic of an organisation enables it to purposefully reach out beyond its own boundaries and interact meaningfully with its internal sub- and/or external supra-systems.

The permeable quality of an organisation therefore validates its capability to purposefully interact with its environment. This study regards effective and strategic two-way corporate communication as a critical and an indispensable mechanism that a for-profit organisation can use to interconnect with other systems beyond its own boundaries.

3.3.4 A social versus biological system as an open system

Open systems appear to seek multiple goals or purposes. However, a social and a biological system are two different types of open systems (Kast & Rosenzweig, 1972:453). Social systems consist of elements that have and can exercise their own will and be purposeful in the multiple goals that they are seeking, which presupposes that a social system can change the outcome of its actions.

In contrast, a biological system (even though it is an open system with multiple goals) does not contain one element in its system which can purposefully decide to fulfil another role other than the one it is intended to fulfil (Kast & Rosenzweig, 1972:453; King *et al*., 2010: 294). A biological system therefore has more in common with a mechanistic system, where the changes that take place as the initial system develops into its final state, are characterised by a direct relationship of cause and effect (Kast & Rosenzweig, 1972:450).

Von Bertalanffy (1950:160) notes that purposiveness, where the actual behaviour is influenced by the foresight of the goal, is the original Aristotelian concept. This presupposes that the future goal is already present in thought, which then directs the present action. “True purposiveness is characteristic of *human* [own emphasis] behaviour, and it is connected with the evolution of the symbolism of language and concepts.” (Von Bertalanffy, 1950:160). A system is regarded as an entity that can maintain some organisation in the face of change from within or without (Narayanan & Nath, 1993:56).

This implies that a social system, such as a for-profit organisation, can purposefully plan and accomplish its goals and objectives using diverse inputs, and it can apply different internal activities or conversion processes to achieve its desired outcomes. Von Bertalanffy (1950:157) uses the term ‘equifinality’ to describe the fact that an open system can reach the same final outcome independent of the initial conditions or input and in different ways. A for-profit organisation as an open, social system is therefore seen as intentional, since it is specifically designed to carry out a particular point of view, and engineered to purposefully plan and adapt itself in its pursuance of its multiple goals (King *et al*., 2010:294).

3.3.5 Transformative characteristics of an open, social system

An open system can be viewed as a transformational model since it converts the various inputs it receives in some way and then exports outputs, representing a change in the component materials (Von Bertalanffy, 1950:155). This capability of an open system to transform itself is in contrast to a closed system (like a physical system), which is subject to the force of entropy or disorder which increases until the system eventually fails (Von Bertalanffy, 1950:161).

An open system then has the ability to arrest the entropy, and even to transform it into negative entropy and restore order in the system, because it can import resources from its environment. Fundamentally, an open system can attain and remain in a state of dynamic equilibrium through the continuous inflow of energy, materials and information (Kast & Rosenzweig, 1972:450; King *et al*., 2010:291; Von Bertalanffy, 1950:162).

This is made possible in particular through the phenomenon of feedback. Since information concerning the outputs or processes of the system is fed back as input into the system, it can lead to changes in both the transformation process and future outputs (Kast & Rosenzweig, 1972:450).

A for-profit organisation as an open, social system is therefore not only able to interact purposefully and meaningfully with its environment, it is also able to adapt itself based on the feedback it receives. This concept validates the inference that an organisation as an open system can move towards greater differentiation, elaboration and a higher level of organisation, in contrast to a closed system which moves towards entropy and disorganisation (Kast & Rosenzweig, 1972:450; Von Bertalanffy, 1950:162).

This study contends that corporate trust, as a higher level of organisation, is formed as a result of the processes by which a for-profit organisation and its various components interact with, relate to and influence one another as well as its environment (Kramer, 1999:570). To this extent, the ability of the for-profit organisation to strategically align its actions with the expectations of all its stakeholders is deemed to have a significant impact on how stakeholders perceive the organisation and subsequently, on their decision to trust the organisation.

A brief overview of the implications that the systems theory offers for the corporate environment, particularly in terms of building internal and stakeholder trust, will be judicious at this stage in order to set the scene and provide the immediate link between systems theory as a macro-theory and the focus of this study. The ancillary theories are discussed in more detail in the rest of the chapter, to further elaborate on this connection, and provide the theoretical foundation for the corporate, trust and stakeholder constructs respectively.

3.4 AN ORGANISATION AS A COMPLEX SOCIAL SYSTEM

It is prudent to commence the discussion of a for-profit organisation as a system by making a clear distinction between 'organisation' and 'an organisation'. General systems theory maintains that all systems, which are composed of interdependent components in some relationship to each other, are organised. However, as Kast and Rosenzweig (1972:453) point out, while all systems (physical, biological and social) are by definition organised, not all systems are organisations.

3.4.1 Organisational theory versus a theory of organisations

In line with this distinction between ‘organisation’ and ‘an organisation’, Kast and Rosenzweig (1972:453) also note a distinction between ‘organisation theory’, which deals with general and abstract organisational principles, and ‘theory of organisations’, which is a social science that “… puts real human organizations at the center of interest”. In view of the focus of this study, the latter term (theory of organisations) is then regarded as the more appropriate term to be used.

At the core of the argument lies the issue of purposefulness, the ability to exercise own will. Kast and Rosenzweig (1972:453) note that an organism, which is regarded as the foundation stone of general systems theory, does not have the ability to exercise its own will. Organisms adapt in response to environmentally generated inputs and feedback in order to maintain a steady state.

The purposeful elements within social organisations, however, make it possible for an organisation as a system to purposefully initiate activities and adaptations from within it, to respond to its environment in a predictable way (Kast & Rosenzweig, 1972:453; King *et al*., 2010:294). An organisation is therefore a complex, social system, capable of self-reflection and also “… capable of responding to (or even creating) dramatic changes in the environment (or at least interpreting those changes as problematic for its survival)” (King *et al*., 2010:294).

This point validates the proposition made in this study that a for-profit organisation has the capability to become and be seen to be a trustworthy organisation, in order to ensure and safeguard its long-term economic survival in a sustainable manner (King, 2009:22).

3.4.2 An organisation as a contrived, imperfect social system

A for-profit organisation is a contrived, imperfect social system, one that is made of men and not one that occurs naturally in nature (Kast & Rosenzweig, 1972:450; King *et al*., 2010:294). As such, social organisations can be established for an infinite variety of purposes and their life cycle can either be extremely short or last for centuries, unlike biological systems which follow the same life-cycle patterns of birth, growth, maturity and death within a given period.

Furthermore, social systems are anchored in the attitudes, beliefs, perceptions, habits, motivations and expectations of human beings, so the glue that holds them together is essentially psychological and not biological (Kast & Rosenzweig, 1972:450; King *et al*., 2010:292). Therefore this study contends that an organisation's continued economic success and survival is based on how well it manages the relationship it has with its stakeholders, which is determined by how effective that relationship is (i.e. is it doing the right things) (Narayanan and Nath, 1993) to evoke the *emotional* response required from its stakeholders that will ensure their cooperation and support for the organisation.

As a social system, a for-profit organisation consists of two things: on the one hand, a set of components and on the other, a process by which the components *purposefully* interact to achieve the objective for which it was designed (Littlejohn & Foss, 2005:40). In his influential work *Foundations of the theory of organization* (1948), Selznick defined an organisation as *"… a system of consciously coordinated activities or forces of two or more persons".* According to him, a formal organisation is "… a rationally ordered instrument for the achievement of a stated goal" (Selznick, 1948:25).

The for-profit organisation, posited as a social actor in its own right and as the central system to be examined in this study, is in constant interaction with itself (as a system) as well as with its environment (which includes stakeholders as actors) to achieve its goal, which is to become and remain economically viable and sustainable in its competitive environment in the longer term.

The core objective of any for-profit organisation is to ensure that it remains economically viable and successful in the longer term. In order to realise this, it constantly has to achieve its short-term goals – whether these are monthly, quarterly or annual profit margins, quality, service and production goals – in an effective, efficient, consistent and sustainable manner. All of this requires cooperation and coordinated efforts from people who possess the human and material resources that the for-profit organisation needs to achieve its goals and objectives (Argandoña, 2008:441; Jones, 2007:4).

Goal attainment in a for-profit organisation is made more difficult because of the interdependence (and the related uncertainty and risks that this brings about) that defines the relationships among people within an organisational setting and with the stakeholders in their external environment (Mayer *et al.*, 1995:710; McEvily *et al*., 2008:558, McKnight, Cummings & Chervany, 1998:474; McPhee & Zaug, 2001:581; Selznick, 1948:25, 26).

As a system, an organisation converts external inputs, such as resources, material and investments, into tangible outputs (i.e. products, services and profit) and less tangible outcomes (i.e. a corporate identity, culture, reputation and trust) via a throughput stage, which is comprised of the organisation's activities, operations and value-add (Gillespie & Dietz, 2009:130; Jones, 2007:2). This is done to achieve a particular goal.

Several system components can be found in the throughput stage, including leadership and management practices, policies and procedures, culture and climate, strategy and structure. In addition to these internal system components, external system components such as governance, stakeholders and the organisation's public reputation are also present (Jones, 2007:6). According to systems theory, these various components operate at multiple levels, and each component influences and is influenced in turn by activities in the other system components (Gillespie & Dietz, 2009:130). The process by which the different dimensions within the system influence each other is therefore indicative of systemic behaviour.

This process describes how corporate trust can be enabled and strengthened, how a for-profit organisation can *become* trustworthy and can be made to *be seen to be* (corporate reputation) a trustworthy, responsible corporate citizen by all its stakeholders (King, 2009:22) and how corporate trust is then an outcome of systemic behaviour.

This study argues that the presence of trust in a for-profit organisation presents a powerful mechanism that can help to manage and reduce the levels of complexity, uncertainty and risk inherent in any social relationship. To this extent, trust is viewed as fulfilling a fundamentally functional role in social relationships within a corporate environment (Bachmann, 2006:394; Luhmann, 1979:8; Mishra, 1996:281; Nooteboom, 2002:5).

3.4.3 Benefits and limitations of the theory of an organisation as a system

A study of organisational behaviour then entails a study of an organisation as a complex social system (Kramer, 1999:570; King *et al*., 2010:294). Kast and Rosenzweig (1972:457) postulate that systems theory is vital to the study of social organisations since it presents a major new paradigm for this field of study, in that it provides a fundamentally different view of the reality of social organisations. However, these authors also note the current limitations of using systems theory in the study of social organisations, in particular the challenge to be precise in delineating system boundaries and system levels to avoid confusion about the actual 'system' that is being studied. For example, when referring to organisational behaviour, one needs to be clear whether the focus is on the behaviour of the organisation or on the behaviour of the individuals within the organisation (Kast & Rosenzweig, 1972:455).

Limitations aside, the significant contribution of general systems theory is that it provides a macro-paradigm for the study of social organisations. As Scott and others (in Kast & Rosenzweig, 1972:459) point out, the study of social organisations has also gone through a macro-micro-macro-cycle or sequence of emphasis, just like most sciences.

Traditional bureaucratic theory provided the first macro-view of organisations, where focus was placed on developing principles of management that could be applied to all organisations. This was followed by a period where more attention was paid to issues on the micro-level, with detailed analyses of the individual components or parts of the organisation. According to Kast and Rosenzweig (1972:459), the systems approach offers a return to the macro-level with a new paradigm, which emphasises a very high level of abstraction and allows scholars to focus on using this to move down a level of abstraction, to make their focus of study more concrete and enable them to concentrate on more explicit characteristics and relationships in social organisations.

3.5 CONCLUSION: SYSTEMS THEORY AS MACRO-THEORY

Systems theory, particularly social systems theory, provides the macro-theoretical foundation for a study of organisational behaviour, and in particular for conceptualising trust in an organisational context. The various components of a system interact either in linear, functional or interdependent processes. While this study views an organisation and all its stakeholders as integral components of a social system, the key interaction process that is stressed involves more than just interdependency, and is extended to highlight the relationship perspective.

By looking at a for-profit organisation as a complex social system, a critically different view is offered of the reality that faces a commercial organisation. This view highlights that in order for the organisation to achieve its goal of sustaining its economic viability in the long term, it needs to acknowledge that it is totally dependent on other parts of the system (including its stakeholders), and needs to build and maintain positive relationships with its stakeholders to ensure that it remains a healthy, prosperous and sustainable system.

Since the organisation as a system can be positively or negatively influenced by its environment, it is held that the organisation should take careful note of how it interacts with its environment. As an open and socially designed system, the organisation is capable of interacting purposefully with its environment and as such it is also capable of adapting and transforming itself to manage how it interacts with, and therefore how it is influenced by, its environment. Thus the foundation is laid to conceptualise the importance of and need for trust and trustworthiness in a corporate environment.

4 THEORETICAL FOUNDATION FOR THE CORPORATE CONSTRUCT

4.1 OVERVIEW OF THE CORPORATE CONSTRUCT DISCUSSION

The second theoretical framework provided in this study is for the corporate construct, and this is presented by using the theory of organisations as basis for the discussion. This includes a brief overview of the bureaucratic organisation, as well as of one of the early mid-twentieth century views regarding the theory of organisations. The views of these early organisational theorists are stressed, since they had a broader social and political perspective on commercial organisations, and therefore a clear link can be made between their views on organisations and the conceptualisation of corporate trust and sustainability as posited in this study.

This is followed by a brief overview of the theory of organisation's views that became prominent during the 1970s and 1980s, which had a more instrumental, resource-dependent focus on the organisation-environment tradition. This is done to draw attention to the shift that occurred during this time, where the theory of organisations became disconnected from broader societal issues. The subtle resurgence of these issues from the 1990s onwards (Lounsbury & Ventresca, 2003:458,459) is then noted, and this overview concludes with an introduction of the new structuralism model that emerged in the theory of organisations from the 1990s. Thought is given to the re-establishment of the attention that the early theorists paid to the influence of broader societal issues within a for-profit organisation's operations, and to the ensuing new economic sociological model which placed a strong focus on the role of values, ethics, cultural processes and meaning systems in reshaping the social structure.

The organising process theory, as a particular approach to the theory of organisations, is presented to position an organisation as being dynamic and capable of being changed by the actions of its members, which are driven by the values that underpin their decisions and sense-making. This in turn allows members to construct the reality facing the organisation as well as interpret and respond to that reality. With this, the link with corporate trust will be made.

4.2 INTRODUCTION: THEORY OF ORGANISATIONS

Karl Emil Maximilian 'Max' Weber (1864-1920), a German sociologist and political economist, arguably the foremost social theorist of the twentieth century (Kim, 2008), is regarded as one of the founding fathers of the theory of organisations. With his insights into the functioning of bureaucracy as a dominant administrative system that emerged with capitalism, Weber contributed significantly albeit inadvertently to the origination and development of the theory of organisations (Clegg, 1994:149; Lounsbury & Carberry, 2005:503; McPhee & Zaug, 2001:576; Perrow, 2000:470).

Weber maintained that rational capitalism can only exist on condition that enterprises are organised as dependable and predictable bureaucracies (Swedberg & Agevall, 2005:20). Although Weber's views on the origins of Western rationalism, capitalism and bureaucracy had been published since very early in the twentieth century, it was only when his works were translated into English in the late 1940s that "… interest in bureaucracy, bureaucratization, its sources, and consequences for behaviour in organizations" was revived and gave rise to a number of studies in the theory of organisations, such as that of Phillip Selznick (Lounsbury & Carberry, 2005:503). A brief overview is first given of Weber's theory and concepts of bureaucracy, before Selznick's contribution (1948) is discussed as link to the modern-day theory of organisations and the focus of this study.

4.3 THEORY OF BUREAUCRACY/ORGANISATION: EARLY THEORISTS

4.3.1 The bureaucratic organisation as a rational structure

Two key Weberian concepts that helped to originate the theory of organisations are rationalisation and bureaucracy (Weber, 1946:155). Weber regarded the process of rationalisation as the central process in the development of bureaucracy (Gerth & Mills, 1946:50; Lounsbury & Carberry, 2005:503; McPhee & Zaug, 2001:576).

Weber's conceptualisation of rationalisation was based on a world view in which "… one can, in principle, master all things by calculation" (Kim, 2008). Weber portrayed bureaucracy as essentially being a rational structure of domination (Lounsbury & Carberry, 2005:504; McPhee & Zaug, 2001:576; Weber, 1946:198).

According to Weber (1946:196-198), an ideal type of bureaucracy is characterised by the following six features: it covers a fixed area of activity which is governed by formal rules; it is organised as a hierarchy with a clear chain of command; its actions are undertaken based on written documentation, which is preserved as files; it requires some expert training; its officials need to devote their full activity to their work; and the management of the office (or ‘bureau’) follows general rules which can be learnt (Swedberg & Agevall, 2005:19). Weber’s view of bureaucracy and capitalism can then best be depicted as a rational mode of economic life because it depends on a calculable process of production (Kim, 2008; Weber, 1946:214-215).

Weber’s conceptualisation of a professional bureaucracy based on rational action highlighted the main benefit to the management of the organisation, namely the element of predictability due to increased knowledge and control (Swedberg & Agevall, 2005:20; Weber, 1946:214-215). To act rationally is to act on the basis of conscious reflection about the likely consequences of action. Rational action then presumes some knowledge of the ideational and physical circumstances in which the action is embedded. The knowledge that underpins a rational action is “… of a causal nature conceived in terms of means-ends relationships aspiring towards a systematic, logically interconnected whole” (Kim, 2008).

However, Weber also highlighted the detrimental result of bureaucracy. He observed that, since this process operated on the basis of systematic formal codes and the principle of *sine ira et studio*, that is, ‘without regard to person’ or ‘without anger or bias’, bureaucratic management increased impersonality and led to a dehumanising structure (Kim, 2008; Madsen, 2008; Swedberg & Agevall, 2005:20; Weber, 1946:215-216,334). DiMaggio and Powell (1983:147) also note that Weber warned in *The Protestant Ethic and the Spirit of Capitalism* that “… the rationalist order had become an iron cage in which humanity was, save for the possibility of prophetic revival, imprisoned ‘perhaps until the last ton of fossilized coal is burnt’”.

Weber’s main contributions to the development of the theory of organisations include his conceptualisation of bureaucracy and his emphasis on authority, domination, power and conflict within the organisation. Based on his typology of administrative systems, he described three main types of legitimate domination or authority – rational-legal, traditional and charismatic authority (Weber, 1946:295-299). He held that rational-legal authority was rooted in a belief in legal codes that justified normative rule patterns and the right of those in authority to issue commands under those rules (Lounsbury & Carberry, 2005:504; Weber, 1946:299).

Weber maintained that bureaucracy was an extremely efficient system of administration, particularly because it moved from the traditional to a rational-legal form of authority, thus enabling the reduction of organisational uncertainty (McPhee & Zaug, 2001:577; Oliver, 1991:147; Weber, 1946:214). The concept of organisational uncertainty rests on the dependency of the organisation on the individual worker, and the reduction of this dependency then relies on the ability of an organisation to make itself less dependent on the personal knowledge and skills of an individual, by for example displacing knowledge from the worker to the organisation (McPhee & Zaug, 2001:576; Selznick, 1948:25; Weber, 1946:215).

According to Weber (1946:215-216), this reduction of uncertainty is made possible partly because the activities of everyone in the organisation are oriented towards complying with a legal norm or system of abstract rules established by the leadership, and partly because of the division of labour principle, where each member has a position in the hierarchy of the organisation, as well as a specific task and sphere of legal competence within which he/she has to perform his/her tasks. This arrangement then allows for maximum predictability and the reduction of organisational uncertainty (McPhee & Zaug, 2001:577).

However, despite his focus on rational action and predictability, Weber also highlighted the complex connections that exist between an organisation and its environment, typified by social and political issues (Lounsbury & Carberry, 2005:502; Weber, 1946:228-235).

4.3.2 Early foundations of the theory of organisations

Phillip Selznick's work (1948) serves as an example of the developing views during the early stages of the theory of organisations, and many of the viewpoints raised in his work more than five decades ago still hold considerable appeal today, particularly for this study's conceptualisation of corporate trust.

With his definition of an organisation as *"… a system of consciously coordinated activities or forces of two or more persons",* Selznick (1948:25) builds on Weber's concept of rationalisation, by regarding a formal organisation as the structural expression of rational action. By this, he is referring to the systematic patterns of coordination of positions and duties, made feasible through defining the chain of command, establishing authority and constantly expanding formal mechanisms of coordination and control, in order to mobilise the technical and managerial skills required to achieve the agreed purpose of the organisation.

However, while he supports the conceptualisation of the commercial organisation as a rational structure, Selznick highlights the undeniable element of non-rational behaviour in an organisation. He argues that a formal organisation can never only be an almost mechanical arrangement and acceptance of organisational objectives, expectations and values, mainly for two key reasons. The first is because an organisation is made up of individuals who interact with one another and the organisation as 'wholes' – as emotional, non-rational individuals with their own sets of beliefs, values, habits, dreams, goals and commitments, and not merely in terms of their formal roles and functions in the system. The second reason is because the formal system itself, as well as the social structure within which it finds itself, are both subject to the pressure of an institutional environment to which some overall adjustment and modification must be made (Selznick, 1948:25,26; Scott, 1987:494).

Selznick distinguishes two views of a formal, concrete organisation, which are rationally distinct but empirically united in a context of shared consequences, namely to view it both as an economy and as an adaptive social structure at the same time (Selznick, 1948:25; Scott, 1987:494). As an economy, an organisation is conceptualised as a rational structure, as a system of relationships in which the availability of scarce resources is refined and manipulated in terms of efficiency and effectiveness.

However, Selznick reasons that an organisation is a social structure as well, one which is conditioned and influenced by the animated state of the real or actual structure, outside the systematics of delegation and control in the formal structure (Selznick, 1948:26). This means that, even in formal authoritarian organisations, control depends on the extent to which the individuals in the system can be persuaded or encouraged to participate. It is this need for the consent of the workers which makes an organisation more than just a mechanical, rational structure that can be operated only on the basis of authority and control, but rather a social, adaptive structure that needs to react and adapt to influences from its external environment (Selznick, 1948:28).

With his conceptualisation of a formal organisation as a cooperative system, described as being *"… constituted of individuals interacting as wholes in relation to a formal system of coordination",* Selznick widens the general frame of reference within which the manipulation of organisational resources could be examined.

According to Selznick (1948:28), this means that the 'real' structure of an organisation is a consequence of the mutual and reciprocal influences of the formal and informal relationships, and a result of the organisation's reactions and adaptations to influences from its external environment. Selznick (1948:29) uses structural-functional analysis as a method of enquiry, defined as *a method that "… relates contemporary and variable behavior to a presumptively stable system of needs and mechanisms".*

Selznick (1948:29) argues that the maintenance and continuity – the very *survival* – of a formal organisational system is dependent on the following: paying heed to social forces in the organisation's environment, ensuring stable lines of authority and communication, acknowledging the power of informal relationships, ensuring continuity in policy and direction setting and cultivating a homogenous understanding of the organisation's role and values.

Selznick's description of the method of structural-functional analysis reflects the requirements and stable system generally characteristic of formal organisations. These imperatives, derived from the needs of the organisation, represent the conditions for survival or self-maintenance of cooperative systems of organised action (Selznick, 1948:30; Scott, 1987:494).

The concept of organisational need focuses analysis on "… the internal relevance of organizational behavior" (Selznick, 1948:30). Here reference is made in particular to the discretionary action undertaken by employees in their pursuit of formal organisational goals, and their need to weigh specific actions in terms of their consequences for the stability and survival of the organisation. Selznick highlights that 'internal relevance' does not mean that the action needs to be only internally oriented, it should most likely also be externally oriented and inspected for its relevance to internal conditions.

Selznick (1948:31) introduces the concept of commitment or involvement as being fundamental to organisational analysis. He describes this concept as reflecting an inherent and profound "… dilemma in human behavior (represented) by an inescapable commitment which cannot be reconciled with the needs of the organism or the social system" (Selznick, 1948:31).

Applying this to organisations, Selznick (1948:32) notes that there is an observable tension in the split between the "… motion and the act", in that where there may be freedom of technical or ideal choice in the plan of action, the actual action is held captive by the individuals' own sense of involvement and commitment, which effectively tempers the initial plan. In the relationship between need and commitment, the "… latter not only qualifies the former but unites with it to produce a continuous state of tension" (Selznick, 1948:32). The concept of recalcitrance is used to describe the quality of the tools of social action, and to define the environment in which organised action takes place as *one that is marked by an ongoing battle between constraint, commitment and tension, rather than just one that is defined by the need to adjust.*

Selznick (1948:31) notes that "… an economic order committed to profit as its sustaining incentive may, in Marxist terms, sow the seed of its own destruction". The implication here is that a for-profit organisation that simply expects of its employees only to 'adjust', to remain singularly focused on increasing profits, without taking into account that this organisational need may create situations of conflict and tension for the employees when they are called on to act in a way that may achieve the profit objective, but conflicts with their own belief or value systems. In their review of Weber's influence on the theory of organisations, McPhee and Zaug (2001:578) also note that, while the effects of the bureaucratic concept of rational action lead to narrowing organisational goals and minimising ambivalence, it also leads to delegitimising alternative or incompatible goals.

A profit-making organisation, which monomaniacally pursues maximisation of monetary profit, will therefore ignore alternative organisational goals, such as considering and meeting stakeholders' expectations. The description of the inadvertent outcome of such a single-minded pursuit of profit at the expense of everything and everyone else is even more ominous today than the one Selznick described over five decades ago. McPhee and Zaug (2001:578) note that analysts from a wide range of interest areas (e.g. political, economic, environmental, philosophical) "… argue forcefully that this dynamic is now threatening the entire planet", not only the future of an individual economic order.

4.3.3 <u>A connection with societal issues: early theorists</u>

Weber and Selznick as two early proponents of the theory of organisations premised their views of commercial organisations within a broader political and societal structure and incorporated the impact this had on both the organisation and society into their theoretical frameworks (Lounsbury & Ventresca, 2003:459; Selznick 1948:25,34). Weber situated his views of organisational processes within a broader framework of political economy, emphasising aspects of social structure such as power, domination, authority and legitimacy. However, while he emphasised the positive outcomes of bureaucracy, Weber was also disturbed by the power and the dehumanising nature of bureaucracies (Lounsbury & Carberry, 2005:459,505).

The importance of the societal context within which an organisation operates and the critical role that values play in an economic organisation were also key premises in the work of Selznick, who observed that it is imperative for an organisation to appreciate that it exists as a whole in relation to social forces in its environment, if it wants to maintain itself as a system and so ensure its survival (Selznick, 1948:29; Scott, 1987:494). Selznick defined social power as "*… subjective and objective factors which control the loyalties and potential manipulability of the community"*, and noted that an organisation's "… continued existence is threatened" when it is disconnected from sources of social power (Selznick, 1948:35).

According to Selznick, social order is fundamentally based on a shared social reality, which in turn is a human construction, created in social interaction (Scott, 1987:494). Selznick (1948:30) held that one of the key mechanisms that a commercial organisation could employ to ensure its survival or self-maintenance as a cooperative system of organised actions, is the need to create a homogenous outlook – a shared reality – with respect to the character of the organisation; its meaning and role and the underlying values that drive and form the organisation's character.

4.3.4 Key implications of these early theorists for this study

A brief overview of selected key implications that some of the concepts of Weber's theory of bureaucracy and Selznick's view of the theory of organisations proffer to the focus of this study is highlighted next, to contextualise the value of these views for the conceptualisation of corporate trust. This also serves to position the discussion that follows on the disconnection from the social element that took place in the study of organisational behaviour and performance in the latter part of the twentieth century.

- ***Creating an authentic mutually shared value system***

When Weber conceptualised domination in a bureaucracy as requiring a shared belief system between and among those in authority and their followers, he may have had in mind only the need for the leadership to institutionalise (i.e. to create a common or shared understanding of) the rules and norms that employees had to adhere to with the intent to structure the interactions and stabilise and govern the relationship (Lounsbury & Carberry, 2005:504). With his conceptualisation of the tension created between need and behaviour due to differences in levels of commitment and involvement, Selznick (1948:32) takes Weber's conceptualisation further than just the level of rules and norms, and incorporates the role of the internal value and belief systems of employees – as emotional, non-rational individuals with their own sets of beliefs, values, habits, dreams, goals and commitments – in their organised action to meet the organisation's needs.

This study expands Selznick's concept further to highlight the need for organisations to create an *authentic* mutually shared value system, which unequivocally incorporates and accommodates employees' individual values and beliefs. It is maintained that the sustainability of a for-profit organisation is among others dependent on such a shared value system, one that will enable employees to uncompromisingly associate their own system of values and beliefs with that of the organisation, and will empower them to co-create the organisation's identity. It is posited here that this requirement is also of significance to the external environment. Stakeholders also need to fully understand the mandate, identity, character, meaning and intentions of an organisation, in order to be able to judge how effectively it is behaving in accordance with its promised behaviour.

- ***Co-creation of an organisation's character***

Another viewpoint that this researcher expands on from the early theory of organisations, is one that relates to Selznick's view that the leadership needs to ensure that the employees are made to understand what they are supposed to do and how they should behave while fulfilling their duties, to enable them not to violate the essential character of the organisation.

While the need for effective communication and the creation of a shared vision of the character and role of the for-profit organisation is undeniably supported, the expounded view of this study is that the employees are part of creating the character and meaning of the organisation through their everyday behaviour – they are not merely actors who only need to adhere to the character of the organisation as set by the leadership.

This presupposes that the principle of *sine ira et studio*, meaning 'without regard to person' (Kim, 2008; Swedberg & Agevall, 2005:20; Weber, 1946:215-216, 334), which characterised bureaucratic management and increased impersonality and dehumanised the employee as an individual, needs to be revised. The principle of regarding the employee in his totality as a social being and an individual within his role in a modern-day for-profit organisation then needs to be not only accepted, but embraced. This study also posits that the focus of the theory of organisations needs to be expanded to include the role that both the employees and the stakeholders play in co-creating an organisational character (Argandoña, 2008:441; McPhee & Zaug, 2001:585). The desired identity, character and culture, as set forth by the leadership, should therefore be one that employees and stakeholders can, and will want to, fully associate with, participating in its creation and maintenance.

- ***Reducing uncertainty by accepting complete dependency***

Weber and Selznick held that the way in which organisational uncertainty can be reduced, is for the organisation to make itself less dependent on the personal knowledge and skills of an individual (Selznick, 1948:25). Contrary to this, this researcher's view is that the reduction of uncertainty (Oliver, 1991:147) relies on the organisation's acknowledgement and acceptance of its *complete* dependency on its employees and stakeholders.

This implies that leadership should endeavour, and be able, to harness the personal knowledge and skills of the individual employees to co-create and endorse the culture and goals of the organisation, as well as to build a trust relationship with its key stakeholders in order to secure their support. This view is grounded in Selznick's argument that control depends on the extent to which the individuals in the system can be persuaded or encouraged to participate in organisational goals (Selznick, 1948:26).

Nurturing an authentic trust relationship to secure the support of stakeholders will in turn minimise constraints and maximise commitment from both employees and stakeholders, and so aid in securing the longer-term advancement and survival of the organisation.

- ***Creating a cooperative internal and external environment***

Another extended view asserted in this study is that a for-profit organisation that sets as its basic focus the need to behave in a transparent, ethical and trustworthy manner in its quest to attain sustainable economic growth, albeit in the longer term, will be able to create a cooperative internal and external environment – one that is characterised by fundamentally shared values, goals and expectations.

As a basis for this belief, Selznick's (1948:28) argument that the 'real' structure of an organisation is a consequence of the mutual and reciprocal influences of the formal and informal relationships and aspects of organisation, as well as a result of the organisation's reactions and adaptations to influences from its external environment, is used. This view from Selznick still has merit in today's organisational environment as well as for the focus of this study in particular, in that it provides the basis for examining how the 'real' structure of a for-profit organisation (as a trustworthy and sustainable organisation) can be established, maintained and measured.

4.3.5 Closing remarks on early organisational theorists

These views of Weber and Selznick as early adherents of the theory of organisations offer a profound lens through which organisational analysis can be explored, one that is extremely pertinent to the focus of this study, since it contextualises the economy as being "… embedded in and shaped by society – that is, by social relations, culture, and history's path-dependent processes" (Perrow, 2000:474).

Unfortunately, this early sociological framework, which more than adequately provided for the dynamism involved both within and between a commercial organisation and its social, political and cultural environment, was increasingly abandoned by the organisational theorists who followed, and who informed the views on the theory of organisations in the latter part of the twentieth century. However, the challenges facing for-profit organisations in the twenty-first century demand a reinstatement of a sociological organisational management framework that incorporates the role of contemporary social, political and cultural change and its impact on organisations (Lounsbury & Carberry, 2005:513,516).

Today's post-modern society has to contend with contemporary transformative issues such as the social movements around globalisation, the rise of the stakeholder view, the crises of advanced capitalism and the impact of technology on social organisation (Lounsbury & Carberry, 2005:515; Wood, 2002:62). Any for-profit organisation that continues to act as if it is an entity that does not form an integral part of this society, and does not purposefully work at earning its place and right to operate in society by being a trustworthy corporate citizen, is risking its own economic survival.

4.4 LATE TWENTIETH-CENTURY VIEWS ON THE THEORY OF ORGANISATIONS

The purpose of this discussion is not to provide an in-depth overview of the development of this theory, but merely to highlight the shift that occurred in the theory of organisations, from the early bureaucracy and organisation studies of the mid-twentieth century, which included a broader political and social perspective on organisations, to the operational and resource-dependent focus of the organisation-environment tradition in the latter part of the twentieth century. This shift shows the disconnection between the theory of organisations and broader societal issues which occurred from the 1970s, and the reemergence of these issues from the 1990s onwards (Dacin, Goodstein & Scott, 2002:45-47; De la luz Fernández-Alles & Valle-Cabrera, 2006:503-504; Lounsbury & Ventresca, 2003:458,459,501; Oliver, 1991:145; Scott, 2008:427-432; Selznick, 1996:270-273).

4.4.1 A disconnection with societal issues: 1970s-1980s

Following the connection that the early theorists of organisational analysis established with societal issues in the mid-twentieth century, a review of the development of theory in the latter part of the twentieth century indicates that this theoretical framework became increasingly disconnected from the role of organisations in society during this period (Lounsbury & Carberry, 2005:513; Lounsbury & Ventresca, 2003:458; Perrow, 2000:471).

During the 1970s and 1980s, organisational analysis became progressively fixated on the internal affairs of an organisation, particularly on productivity and efficiency, directed at assisting organisations to achieve their goals and objectives faster and better (Lounsbury & Carberry, 2005:514; Lounsbury & Ventresca, 2003:460; Narayanan & Nath, 1993:162; Perrow, 2000:470). This set of theoretical arguments triggered a return to conceptualising inter-organisational relations as highly rationalistic and instrumental (De la luz Fernández-Alles & Valle-Cabrera, 2006:504; Lounsbury & Ventresca, 2003:458).

From a systems perspective, it can be argued that an organisation was increasingly seen as a closed system during this period, since the focus was mainly related to the internal workings of an organisation, instead of acknowledging the openness of an organisation as a social system, which affects and is affected by the environment in which it exists (Narayanan & Nath, 1993:162). During this period less attention was being paid, in both theoretical and empirical work, to wider societal patterns and the distribution of resources. The insight that the legitimate and sanctioned materials that are being provided by the environments "… comprise particular elements, ideologies and rationales [that are] contingent, time-dependent, and potentially in conflict one with another" was generally neglected (Lounsbury & Ventresca, 2003:463). Concurrently during this time "… attention to social structure became narrowly transformed into a more sterile conception of organizational environment as an abstract, exogenous force that constrained organizational behavior" (Lounsbury & Ventresca, 2003:461).

The focus during this time also shifted towards studying principally for-profit organisations. Organisational scholars started concentrating primarily on exploring and finding the most efficient organisational practices which would enable the achievement of an increasingly singular goal for these business organisations, namely more profits in a shorter time frame (Lounsbury & Ventresca, 2003:460-461; Perrow, 2000:470).

This change in focus brought about a disconnection, related to social issues and change, in organisational studies – a disconnection between the organisation and the social impact it had, its social consequences "… as the externalities born by workers and communities, the stratification system, and the concentration of wealth and power" (Lounsbury & Ventresca, 2003:458; Perrow, 2000:471). Organisational scholars lost touch with the position of organisations in society and the persistence of systems of power both within and outside organisations (Lounsbury & Carberry, 2005:514; Selznick, 1996:272). Instead, the power of capital markets and the shareholder view meant that "… the activities and meaning of organizations have been reduced to their financial statements" (Lounsbury & Carberry, 2005:516).

In the latter part of the twentieth century organisational theory, organisations and their environments were narrowly conceptualised, with very little consideration being given to cultural processes and meaning systems (Lounsbury & Ventresca, 2003:458). In 1996, Selznick (1996:272-273) referred to the then current view of organisational theory and its rational-actor models as 'shortsighted'. This intellectual shift that occurred in the development of organisational theory is also evidenced in the review of Lounsbury and Carberry (2005) of the development of the theory of organisations since the mid-twentieth century. Based on their comprehensive citation analysis of Max Weber in scholarly articles in *Administrative Science Quarterly* (ASQ) from 1956 to 2002, Lounsbury and Carberry (2005:513) observe a steady decline in the percentage of articles citing Weber in ASQ since its peak (36.5%) in 1961 to its lowest point (6.8%) in 1991, followed by a modest increase up to 15% by 2002.

However, the more pertinent findings of these authors emanate from their in-depth content analysis of the text containing and relating to the citation of Weber, demonstrating that in the early years (1956-1970) articles related to intra-organisational and social organisation streams dominated, with the latter already reaching its peak during the early 1960s (Lounsbury & Carberry, 2005:511), but that articles during the period 1970-1989 became more disconnected from the Weberian theme of the interaction between an organisation and its social, political and cultural environment (Lounsbury & Carberry, 2005:513).

- ***A possible rationale for the disconnection from societal issues***

One probable rationale that can be offered to explain this shift is the rise of business schools in the late 1950s and 1960s, which decisively shaped the field and became the dominant site for the discourse and development of the theory of organisations (Lounsbury & Ventresca, 2003:461; Perrow, 2000:471). With foundation grants provided to study business organisations, scholars from the social sciences discipline migrated to professional business schools, and were initially responsible for directing these studies until the business schools were large enough to grow their own faculty.

Perrow (2000:471) observes that while these scholars would most probably have initially brought with them the larger social concerns and critical perspectives on organisations stemming from their discipline, their assignment to train future managers in the classroom significantly influenced their future research and writings to deal with the problems their charges were facing within their organisations. Lounsbury and Ventresca (2003:461) note that the study of how organisations in the 1970s related to broader social structures became a neglected topic, derided as archaic by mainstream organisational researchers who valued the development of knowledge about strategy and performance instead.

The emergent market of MBA students whose research needed to be judged in publications led to more specialised journals and publishers being established to meet the demand, which led to specialised fields being developed in business schools, particularly in the 1970s and 1980s. The research being done in the business schools then increasingly became "… narrowly oriented research in the idiom of normal science" (Lounsbury & Ventresca, 2003:462), in that the research was directed by middle managers in organisations, who would support the MBA students with their research financially or by granting them privileged access to data and personnel, based on an expectation to get research projects that dealt with their real-time needs and problems in their organisations in return (Perrow, 2000:472).

Consequently, the theory of organisations during this period materialised as a management sub-field, which conceptualised social structure and organisations progressively as being instrumental, driven by functional imperatives. This reinforced a conception of organisations as "… goal-driven unitary entities interlocked in concrete exchange relations" (Lounsbury & Ventresca, 2003:463). However, as Perrow (2000:473) points out, while this change in focus can partly be explained by the growth of business schools, it can also be explained by the lack of contribution to organisational theory from social scholars.

Since the 1950s, the social movements focused more on sentiment and solidarity, on 'hearts and minds', and displayed a gross insensitivity to the role of organisations (Perrow, 2000:472). This led to a view that social issues such as power, inequality and poverty had nothing to do with the free market system, since it did not meet the "… causal primacy of efficiency or narrow self-interest" that characterised the organisational scope at the time (Lounsbury & Ventresca, 2003:458). These social issues were regarded as falling outside the challenges that organisations had to contend with at the time (Perrow, 2000:473).

4.4.2 <u>A reconnection with societal issues: 1990 onwards</u>

From the 1990s onwards a gradual reconnection to societal issues in the study of organisations can be observed (Lounsbury & Carberry, 2005:513). In their citation analysis of Weber in ASQ for the period 1956 to 2002, Lounsbury and Carberry (2005:513) found that there had been a moderate growth in articles that reconnected with the "… broad intellectual legacy left by Weber and his concerns with authority, domination, and situated socio-historical analysis" between 1993 and 2002.

In many of the organisational studies in the early twenty-first century intra-organisational and organisation-environment research has begun to shift towards the social organisation tradition, developing richer analyses of fields that consider culture and social organisations (Lounsbury & Carberry, 2005:513), and that consider the role of meaning systems as well as the everyday social practice that "… support and can contribute to the reshaping of social structure" (Lounsbury & Ventresca, 2003:458). This reconnection with broader societal issues can be seen as largely driven by the changes that have been, and continue to be, taking place in society at the start of the twenty-first century.

From a systems perspective, it is argued that this reconnection represented a return to the view of an organisation as an open social system, which holds that the primary goal of an organisation as a system, which both affects and is affected by the environment in which it exists, is the quality of its relationship with its stakeholders and its ability to adapt to its social environment to ensure its survival (Gioia, Schultz & Corley, 2000a:64; King & Whetten, 2008:192; King *et al*., 2010:294).

In line with this reconnection with societal issues, organisational scholars increasingly started focusing on the concept of effectiveness (doing the relevant and appropriate things to ensure survival) rather than on efficiency. "Efficiency pertains to doing things right, whereas effectiveness pertains to doing the right things." (Narayanan & Nath, 1993:162).

This researcher agrees that the focus should be placed on effectiveness, rather than on efficiency. In a similar vein, this study concurs with Marsden and Andriof's (1998:338) contention that doing the profitable thing need not be separated from doing the right thing: "Understanding what is the right thing [read 'effective'] and having the integrity and moral courage to do it when it appears to conflict with other business objectives is vitally important. It is simply so much easier to achieve when it can also be shown to support the *sustainable* [own emphasis] pursuit of profits which, it is argued, will increasingly depend on ecologically sound resource stewardship and a reputation for fair dealing with all stakeholders."

The rise of the stakeholder view and concept of responsible corporate citizenship, the power of ordinary citizens to mobilise themselves *en masse*, using modern technology, and to act against organisations that they feel are contravening their powers and who are not doing the 'right' things, as well as the existent view that organisational action is fundamentally shaped by broader social and cultural processes (Lounsbury & Ventresca, 2003:458,515; Marsden & Andriof, 1998:332), are all significant contributors to driving the reconceptualisation of the role and responsibility of a for-profit organisation as a social system in today's post-industrial society.

4.5 NEW STRUCTURALISM, ECONOMIC SOCIOLOGY AND LINK TO TRUST

The field of organisational theory started witnessing a dramatic change at the turn of the twentieth century, as its scholars started reconnecting organisational analysis with societal issues, thus bringing 'society' back to centre stage (De la Luz Fernández-Alles & Valle-Cabrera, 2006:503; Lounsbury & Ventresca, 2003:459). This led to a new form of structuralism, one that derives insight from the social structural tradition in sociology, and extends that tradition by conceptualising social structure as encompassing cultural rules, meaning systems and material resources (Lounsbury & Ventresca, 2003:457).

4.5.1 Culture and institutional logics in new structuralism

The new structuralism concept regards a cultural system as being structured as the summation of the various activities that individuals are obliged to engage with as they undertake and resolve the routine events and challenges they have to face on a daily basis. New structuralism theorists focus their attention on "… ontological problems having to do with how conceptions of reality are rooted in broader social and historical processes that operate beyond the direct consciousness of actors but are visibly instantiated in daily activities" (Lounsbury & Ventresca, 2003:464). This infers that focus is now placed on exploring and examining the rules – the logics – which constitute the interests of actors and thus shape cognition and action.

Within the new structuralism framework, institutional logics then represent the patterns of sense-making and activity that develop within an organisation, patterns that are formed as a result of individuals' actions to make sense of and meaningfully organise their environment. Institutional logics comprises the rules or processes individuals use to guide their actions, rules that are based on what is meaningful to them within a broader social context, and not necessarily on a rational means-end basis (unless it is appropriate), and which therefore become the established, instinctive conditions of social action (Lounsbury & Ventresca, 2003:465).

Kramer (2010:87) refers to this as 'rule-based trust', described as "… *a set of formal and informal understandings that govern how individuals within the organization interact*", which "… becomes a potent form of an expectational asset that facilitates more spontaneous cooperation among organizational members" (Kramer, 2010:89). This is because trust becomes internalised at the micro-organisational level by institutionalising trust and trustworthiness through rule-based practices at the macro-organisational level, which results in a shared common knowledge in the ability of the role players in the organisation to reach cooperative outcomes.

4.5.2 <u>Institutionalised values, norms and beliefs direct organisational action</u>

Institutional logics is then equal to the concept of institutionalism, which can be defined as *"… the emergence of orderly, stable, socially integrating patterns out of unstable, loosely organized, or narrowly technical activities"* (Selznick, 1996:271). This definition therefore refers to the enduring and fixed character that beliefs, values, norms, behaviours or ways of thinking develop over time, when these social arrangements take on a rule-like quality and become institutionalised (Lammers & Barbour, 2006:358).

In the same vein, Hauriou (in Lammers & Barbour, 2006:358) regards shared and highly valued ideas as the underlying laws that direct actions in an organisation, ideas which in time become institutionalised. Commons (1950) views institutionalised ideas or values as 'working rules' within an organisation (Lammers & Barbour, 2006:358). This view is reminiscent of Weber's distinction between formal rationality (a means-end calculation) and substantive rationality (a focus on how social action is shaped by ultimate values) (Lounsbury & Carberry, 2005:516-517). Institutional rules, such as who the actors are in the organisation, what interests and actions are regarded as appropriate and what means can be used to pursue those interests, are then products of socially constructed rules (Lounsbury & Ventresca, 2003:470; McPhee & Zaug, 2001:582).

It is therefore posited that it is the social structure of an organisation that shapes the behaviour of the organisation and its representatives and that also mediates the effects of its resources (Lounsbury & Ventresca, 2003:463; McPhee & Zaug, 2001:585).

4.5.3 New economic sociology

The new structuralism model that emerged in the theory of organisations from the 1990s then re-established the attention that early theorists had paid to the influence of broader societal issues within a commercial organisation's operations, and which placed a prominent focus on the role of cultural processes and meaning systems in reshaping the social structure (Lounsbury & Carberry, 2005:518; Lounsbury & Ventresca, 2003:457). With this, Weber's original concept of economic sociology (examining economic activities within a social context) is revived and further refined.

This brings about a new economic model, which emphatically recognises that the economy is embedded in and shaped by society (Perrow, 2000:474). This new sociological systems model enables a more insightful connection to be made between systems of authority inside of organisations, and broader structures of power and privilege within society, as well as the complex ways in which such systems and structures are legitimated (Lounsbury & Carberry, 2005:519).

The reconnection with social issues in the theory of organisations re-establishes the focus of examining the rational actor of economic theory and the socially constructed nature of reality (Lounsbury & Carberry, 2005:518). This then places a pertinent focus on the role that values, ethics and trust fulfil in a for-profit organisation (Argandoña, 2008:439; Fukuyama, 1995:27; Hosmer, 1995:386; McPhee & Zaug, 2001:583).

4.5.4 Organising process theory tradition

Instead of viewing an organisation as a "… fixed and finished product handed down by a rational designer" (McPhee & Zaug, 2001:582), scholars from the organising process theory tradition then started looking at an organisation as being dynamic, constantly in flux and being changed by the actions of its members, actions that are informed by the manner in which they make sense of their environment and the values they adhere to when making their decisions (McPhee & Zaug, 2001:585).

One group of theorists in this tradition focused on "… the emergence of order, action, and meaning in processes of organizational interaction". In this view, the organisation is seen as being shaped by the social-interactive routines used by its members to cope with the uncertainty that confronts the organisation, and in doing so they construct the reality facing the organisation as well as the interpretation of and a response to that reality (Lounsbury & Ventresca, 2003:463; McPhee & Zaug, 2001:582). The members of any organisation are constantly assailed with ambiguous demands and incomplete information, which makes it difficult for them to clearly know with absolute certainty what they need to do to perform their duties, and exactly how they need to do it (McPhee & Zaug, 2001:579). This is particularly true in today's post-modern organisations, characterised by information overload, increasing pressures and stakeholder demands.

The organising process theory, as an approach to the theory of organisations, submits that more information and rules will not be an effective manner in which to assist these employees to reduce the uncertainty in their environment. Rather, the proposition is that employees need "… values, priorities, and preferences" that will help them clarify which tasks and projects matter, and guide them on how to behave. Sense-making is held to be grounded in identity construction, which means that when employees need to start making sense of an organisational problem or a task, they will start the sense-making process from the basis of what the organisation says it is (Fenton & Langley, 2011:

1171,1180) and use that as an "… extracted cue around which [they] assemble an interpretation" (Weick in McPhee & Zaug, 2001:584).

This view firmly places the need to institutionalise values and norms, defined here as *a generally agreed-upon standard for behaviour* (Jones, 2007:103), at the centre of a for-profit organisation's strategy, if it wants to ensure its long-term economic success in a sustainable manner. Since an organisation's institutional rules guide the behaviour of its representatives and employees, a system of value logics that has been institutionalised will enable the actors of the organisation to choose the most appropriate means to achieve an end – one that does not violate the values of the organisation.

4.6 CONCLUSION: THEORETICAL BASIS FOR CORPORATE CONSTRUCT

In providing an overview of the development of the theory of organisations, an attempt was made to conceptualise the corporate construct as it relates to the conceptualisation of trust within a corporate context by this study. The overview of the development of the theory of organisations, from its foundations in the bureaucracy school to the new economic sociological view that is pertinent today, has provided insight into the changing views of how a commercial organisation is seen to operate and what it needs to do to ensure its goal of sustaining its own economic viability.

This overview has highlighted that a commercial organisation is not a rational entity that is in total control of its destiny and can operate in a vacuum, but rather a complex social system that is totally dependent on its environment, on its internal and external stakeholders, and one that therefore needs to consider how it interacts with its environment. Secondly, it has shown that the initial understanding of a commercial organisation operating as part of a bigger social system, which had been replaced with more functional, inward-looking and short-term profit-seeking views of organisations in the latter part of the twentieth century, is becoming prevalent again in the twenty-first century. However, it has also emphasised that the social post-modern environment that the for-profit organisation finds itself in is at once more complex and more challenging than ever before, due to the greater emphasis being placed on values and moral behaviour, and the increased power that internal and external stakeholders have today.

Since it is held that the social structure shapes behaviour, it is posited that stakeholders construct the reality facing the organisation as well as the interpretation of and response to that reality. This view provides the definitive link between the renewed philosophy in the theory of organisations – one where values and ethics are accentuated as essential and beneficial *economic* attributes – and the pertinent focus on the role of trust and trustworthiness in an organisation (Argandoña, 2008:441; Cacioppe *et al*., 2008:681; Fukuyama, 1995:27; Hosmer, 1995:386; McPhee & Zaug, 2001:583; Murphy, 2005:183).

5 THEORETICAL FOUNDATION FOR THE TRUST CONSTRUCT

5.1 OVERVIEW OF THE TRUST CONSTRUCT DISCUSSION

The theoretical foundation for the trust construct is now provided, using social theory as basis. According to social theory, trust is conceptualised as a sociological event, characterised and accompanied by a high level of relationships and their associated communication and engagement behaviours. After the role of trust in social relationships is explored, it is posited that trust can fulfil the self-same role in relationships within an organisational environment.

In order to conceptualise trust within the corporate environment, a for-profit organisation is then positioned as an independent, authoritative and purposeful social actor in its own right – as a legitimate entity that can therefore be held accountable for its actions on a legal and moral basis. As such, the organisation itself is positioned as the predominant system being explored in this study.

Correspondingly, the for-profit organisation is also conceptualised as a social entity whose existence is dependent on its interactions with its environment in order to achieve its desired outcomes. This locates the central role that internal and external stakeholders, as key actors who interact systemically with the organisation, play in the formation of corporate trust. The extent to which this dependency leaves the achievement of specific goals outside the for-profit organisation's direct control represents a risk to be mitigated. Therefore corporate trust is positioned as an essential strategy that a for-profit organisation needs to implement in its pursuit to ensure its own economic performance in a sustainable manner.

As a particular approach to social theory, the theory of action – which positions the organisation and its stakeholders as purposeful actors – is examined to locate the importance of trust within a corporate context. Decision theory, as a specific approach to action theory, is then used to position the role of ethics in consistent organisational decision-making and behaviour, thus making the link between ethics and corporate trust.

5.2 SOCIAL THEORY

Social theory forms part of the theoretical framework of this study, particularly to expand on the theoretical foundation for the trust construct.

5.2.1 <u>Trust as a social event</u>

Social theory conceptualises trust as a sociological event, as an inter-subjective, multi-dimensional and systemic social reality (Ingenhoff & Sommer, 2010:341; Lewis & Weigert, 2008:158; Wicks *et al*., 1999:101).

- ***The role of trust in social relationships***

This study sees trust as a social event, a shared attribute, applicable to the relations among people, rather than an individual psychological state (Ingenhoff & Sommer, 2010:341; Lewis & Weigert, 2008:158). Today's modern society is complex and people have to manage many more significant relationships and social interactions on a daily basis than ever before. As there will always be an element of risk in any relationship, this study maintains that trust presents an efficient mechanism that can help to manage and reduce the levels of complexity, uncertainty and risk inherent in any social relationship, and to this extent trust is viewed as fulfilling a functional role in social relationships (Bachmann, 2006:394; Luhmann, 1979:8; Mishra, 1996:281; Nooteboom, 2002:5).

The presence of trust enables people to cope with risks and makes it possible for individuals to interact meaningfully with one another (Ingenhoff & Sommer, 2010:340; Lewis & Weigert, 2008:160; Wicks *et al*., 1999:100). Trust can therefore be seen to exist in a social system when "… the members of that system act according to and are secure in the expected futures constituted by the presence of each other or their symbolic representations" (Lewis & Weigert, 2008:159).

- ***Trust as a functional alternative to rational prediction***

It is evidently possible for an individual to collect and rationally process information about a known causal relationship in order to predict a certain outcome, and to use such a 'rational prediction' strategy (Lewis & Weigert, 2008:160) as a coping mechanism instead of the trust mechanism. However, as Lewis and Weigert (2008:160) point out, rational prediction alone is not sufficient, since an individual simply does not have the time, resources or means to gain adequate information about every person or group he comes into contact with in order to be able to rationally predict a possible outcome. This is why Lewis and Weigert (2008:167) hold that "… trust begins where prediction ends".

Trust, which is "… to live as if certain rationally possible futures will not occur", can then be viewed as a functional alternative to rational prediction (Lewis & Weigert, 2008:160). It allows an individual to economise on his cognitive resources, information processing and safeguarding behaviours, since it represents an expectation that others will act in a way that will serve or at least not harm the individual's interests (McEvily *et al*., 2008:559).

The ability to trust people to act in a predictable manner, and then tailor his own actions accordingly, allows an individual in a social context to cope effectively with the uncertainty and potential risk inherent in his social relationships. The presence of trust in a social relationship therefore removes the possibility that an individual would be overwhelmed by the need to make provision for all possible outcomes of the actions of the other actors with whom he interacts (Lewis & Weigert, 2008:160). Uslaner (2010:111) argues that trust is "… the chicken soup of social life", since trust is "… a central factor in shaping both social cohesion and institutions that function well".

5.2.2 Trust in an organisational environment

This study posits that trust fulfils a similar functional role in a for-profit organisation, which has to manage a number of relationships and interactions with individuals in the organisation as well as key external stakeholders. Since all the actors in these organisational relationships are dependent on each other, the levels of complexity and uncertainty increase (Wicks *et al*., 1999:104). This is because dependence is understood here as "… the extent to which outcomes are controlled by, or contingent upon, the action of another party" (Wicks *et al*., 1999:104), and to the extent that this leaves the achievement of a specific goal outside an individual's direct control, it represents a risk to be mitigated.

Consequently, both the individual in a social environment and the for-profit organisation in a corporate environment can use trust as a strategy to manage their complex social and organisational relationships, particularly to reduce the risk brought about by their dependency on others to achieve their goals. The presence of trust then places these relationships and interactions on a simple and confident basis, whereas the absence of trust can pose such complexity of contingent outcomes that it could lead to paralysis (Bachmann, 2006:395; Lewis & Weigert, 2008:160).

This viewpoint also explains why Luhmann (1979:8) contends that the function of trust (as well as distrust) in a social environment is to reduce complexity (Bachmann, 2006:394; Mishra, 1996:281). Since an organisation is regarded as a complex *social* system (Kramer, 1999:570), these notions can also be extended to the role that corporate trust plays in a for-profit organisation.

Before discussing trust as an outcome of the systemic and consistently trustworthy behaviour of a for-profit organisation in more detail, it would be pragmatic first to define the actual system that is examined in this study. The conceptualisation of the organisation as a social actor, demarcating the for-profit organisation itself as the system, is therefore outlined first.

5.3 AN ORGANISATION AS A SOCIAL ACTOR

In an attempt to address the limitation that Kast and Rosenzweig (1972:455) identified in using systems theory to examine social organisations, namely the challenge to be precise in delineating system boundaries and system levels to avoid confusion about the actual 'system' that is being studied, the concept of the for-profit organisation as a social actor in its own right (King *et al*., 2010:292; King & Whetten, 2008:193; Whetten & Mackey, 2002:393) will be used to explicitly demarcate the actual system being examined in this study.

This view also addresses the limitations identified in both systems theory and the theory of organisations. A too extensive focus on open systems theory may lead to a view where the organisation is increasingly perceived only as an "… instantiation of the environment in which it is embedded" (King *et al*., 2010:292), instead of also carefully considering the principle that an organisation is not only moulded by its environment, but, more critically, that it can also mould itself as well as its environment at the same time that it is being influenced by its environment.

Conceptualising the for-profit organisation as a social actor clearly provides the 'protagonist' (King *et al*., 2010:290) for the theory of organisations – the organisation itself. This is in contrast to many organisational scholarship studies, which typically portray an organisation as merely being a collection of individuals, who bring organisations into existence through a combination of individual transactions as well as inter-subjective and shared beliefs and experiences, or only as "… nodes in a social network, as instantiations of the environment" (King *et al*., 2010:290; Whetten & Mackey, 2002:395).

This view of the organisation as an actor in its own right (King *et al*., 2010:292; King & Whetten, 2008:193; Whetten & Mackey, 2002:393) differs substantially from the view of much of the existent literature. The concept of an organisation as a particular "… kind of social actor, capable of behaving in a purposeful, intentional manner" (King *et al*., 2010:291), deviates from the usual view of an organisation as a social system that is structurally unique but still primarily embedded in the commercial market or in communities of organising. In defining a for-profit organisation as a distinctive social entity and an actor on its own merits, King *et al.* (2010:292) acknowledge that an organisation can wield influence over individuals, that it can shape and form communities, and that it can transform their environments. This is why King *et al.* (2010:292) refer to organisations as "… bona fide mechanisms for societal change".

Two theoretical assumptions underpin the organisational actor concept, namely the assumptions of external attribution and intentionality (King *et al*., 2010:292). A more thorough overview of these assumptions will be useful to set the stage for positioning the necessity for and capability of an organisation to become a trustworthy concern.

5.3.1 The external attribution assumption

In brief, external attribution means that other actors external to the for-profit organisation itself (such as the government, individual members of the organisation and stakeholders) credit the organisation as being capable of acting. By granting the organisation a legal and social status, these other actors have certain expectations of the organisation, and can therefore hold the organisation accountable and responsible for its actions on a legal and moral basis (Bakan, 2004:28; Greenwood & Van Buren, 2010: 429; King, 2009:11,12; King *et al*., 2010:290,292; King & Whetten, 2008:198; Kramer, 2010:82; Moon *et al.*, 2003:9; Moon & Muthuri, 2008:4).

Based on this, the organisation is then simultaneously independent to act as well as dependent on and accountable to those actors (its stakeholders), who grant it the right to operate as an independent actor. This accentuates the necessity for an organisation to establish a good corporate reputation, so that its stakeholders can get to know it (who it is and what it stands for) so that they can trust and therefore support the organisation.

- ***The sovereign yet dependent nature of the organisation***

A for-profit organisation is a legitimate, autonomous and self-determining entity (King *et al*., 2010: 292; Moon *et al*., 2003:3; Whetten & Mackey, 2002:395), which can determine membership, hire and fire employees, enter into contracts, reward behaviours, impose sanctions and largely has supreme decision-making powers regarding its operations.

Organisations are externally defined as actors by other actors in society. For example, government grants an organisation legal status (Bakan, 2004:28; King *et al*., 2010:298). Society also grants organisations their status to act – it gives an organisation the authority, the licence, to operate (King, 2009:21; Marsden & Andriof, 1998:331). Moon *et al.* (2003:3) note that organisations are "… created by society and derive their legitimacy from the societies in which they operate. They need to be able to articulate their role, scope and purpose as well as understand their full social and environmental impacts and responsibilities."

King *et al*. (2010:292) hold that for-profit organisations "… are actors because society, not only legally but also practically and linguistically, grants them that status". They cite comments such as "IBM has transformed itself" and "Nike acted irresponsibly" to show the linguistic reality of how society regards organisations as actors.

However, the authority that is bestowed on a for-profit organisation to establish and run a business, with a clear profit-seeking objective as a primary goal, is established on the back of certain expectations linked to it. These expectations are based on anticipated returns from the for-profit organisation, on what it will do to 'reimburse' government and society, for example by creating jobs, providing a quality product or service and paying taxes. It is on the basis of these expectations that the for-profit organisation can be held accountable to its stakeholders, despite its sovereign structure.

In the twenty-first century society is increasingly expecting for-profit organisations to make a long-term commitment to sustainable business practices and social participation, in line with triple-bottom-line thinking, which includes a commitment to economic development, social justice and environmental responsibility. Responsible corporate citizenship therefore entails a much greater focus on, and expectation of, fulfilling obligations to society rather than just government (Mackey, 2009:103; Marsden & Andriof, 1998:334-336; Moon *et al*., 2003:14).

Internal and external stakeholders in turn monitor and supervise the actions and behaviour of the for-profit organisation (King *et al*., 2010:292), either directly (via a regulatory function) or indirectly (via an article in the media or a complaint from a customer). As such, stakeholders are regarded as key actors who interact systemically with the organisation and play an integral role in holding the organisation accountable. This forms the foundation for the importance of corporate trust and the need to develop such trust (Williamson, 1993:207).

Organisational sovereignty entitles the for-profit organisation to manage its operations and behaviour as it sees fit, as long as it remains within the parameters of its agreed mandate and does not violate the expectations of society. This means that an organisation can act without the consent of its members, "… even in cases where their actions might prove harmful to members, as long as they act within the perceived bounds of their authority" (King *et al*., 2010:293).

This study posits that a for-profit organisation is capable of managing the actions of its members, since it has the power to control who its members are and what they do. It exercises its power in purposefully admitting and dismissing members of the organisation and controlling the behaviour of its members with rules, rewards and sanctions. When an employee joins an organisation, he submits some of his own natural rights to the sovereignty of the organisation and becomes subject to the constraints that define desired behaviour in the organisation as well as the role given to him (King *et al*., 2010:293).

This means that the individual employee becomes a 'member agent' of the for-profit organisation, one who can speak and act on behalf of the organisation within the confines of his prescribed role (King & Whetten, 2008:195). The employee becomes "… an extension and representative of the organizational actor" (King *et al*., 2010:293). In effect, employees enter into a joint commitment with the organisation, based on a shared understanding to uphold the obligations and principles as set by the organisation, "… even if they do so begrudgingly" (King *et al*., 2010:293).

This supports the viewpoint that a for-profit organisation that sets out to become an authentic trustworthy organisation will be able to do so, since its employees are subject to the sovereignty of the organisation. However, as Gellerman (in Goodpaster, 2007:22) notes, while the leadership of a for-profit organisation has the right to expect loyalty from employees against competitors, it does not have the right to expect or demand "… loyalty against the law, or against common morality, or against society itself'.

- ***Responsibility and self-governing capacity of the organisation***

In their conceptualisation of a for-profit organisation as a social actor in its own right, with legal status and in a unique position as a 'societal powerholder', King *et al*. (2010:294) highlight two points that are extremely pertinent to the focus of this study.

The first point is that a for-profit organisation is responsible and can be held accountable for its decisions and choices. On the one hand, a for-profit organisation can be deemed legally responsible for the contracts it enters into, as well as damages associated with its business operations. This presumes that an organisation can be held legally accountable for its actions (Bakan, 2004:28; King & Whetten, 2008:198). On the other hand, and outside the legal realm, concepts such as reputation, trust and image signify that stakeholders also judge for-profit organisations to be morally responsible and accountable for their actions (Whetten & Mackey, 2002:396).

The responsibility of a for-profit organisation is derived from its ability to direct its members and influence them to behave in ways they might not normally choose. "The mission of the organization, its routines and practices, and individual members' roles within a hierarchy may elicit certain forms of behaviour and choices that are directly attributable to the organization rather than to the individual." (King *et al*., 2010:294).

The second point relates to a for-profit organisation's capacity for self-governance. As an actor, it can establish strategy, develop and observe policies and procedures and make decisions to achieve its intended goal. It is because it possesses these 'agency' characteristics that an organisation can be judged to be legally and morally responsible and accountable for its actions (King *et al*., 2010:294).

5.3.2 <u>The intentionality assumption</u>

In brief, the intentionality assumption is based on the supposition that a for-profit organisation, just like any other social actor, is "… capable of deliberation, self-reflection and goal-directed action", and that some form of intentionality underpins its decision-making and behaviour (King *et al*., 2010:292).

As an independent actor, a for-profit organisation can therefore have intentions, motivated by its particular (self) view of the world, that are partly independent from the beliefs, values, preferences and goals of its constituents (King *et al*., 2010:294). This allows the organisation's member agents to make decisions and act in a reasonably reliable manner, since they will be oriented towards carrying out the organisation's point of view, and not be focused on their self-interests and personal views.

Two internal concepts are fundamental to viewing an organisation as a social actor, namely identity and goals. These two features of the organisation cannot be ascribed to a single individual in the organisation, and in "… this sense, they are properties of the organization and not of some individual(s) within the organization" (King *et al*., 2010:295). It is posited that by managing these two features effectively, a for-profit organisation can ensure that its employees, as members of the organisation, consistently act and perform within the ideal corporate identity and behavioural framework. Moreover, the organisation can ensure the support and approval of its stakeholders by building a corporate reputation on the basis of its identity as an ethical and trustworthy for-profit organisation.

The first of these two features – corporate identity – is discussed in detail in the next section, where an overview of identity theory is offered to provide the theoretical basis of the reputation construct, since identity is regarded as the foundation of corporate reputation (King & Whetten, 2008:193). However, the second feature – organisational goals – is briefly discussed here in order to contextualise the importance of identity and the role of the leadership of an organisation in this regard.

The study of organisational goals is typically linked to the rational view of organisations, "… which assumes organizations are goal-directed, purposive entities" (King *et al*., 2010:296). Goals can be seen as the primary motivation behind organisational design, serve as a guide to employees' behaviour and enable internal and external stakeholders to assess the performance of the organisation.

The significance of these points for the corporate trust construct is twofold. First, it is posited that the primary goals of a for-profit organisation essentially signify the identity, the character, of the organisation. In the light of this, it is crucial that any for-profit organisation that wants to earn the trust and support of its stakeholders needs to ensure that its strategic business goals are aligned with its core identity, which should reflect stakeholders' expectations of moral and ethical behaviour.

This study contends that only when there is congruence and consistency between the organisation's identity and its business objectives – and therefore between what it says it is and how its employees behave in fulfilling their daily duties – will it be able to earn its stakeholders' trust and support, provided the organisation's identity (and therefore its goals) is acceptable to its stakeholders in the first place.

Secondly, the ability of an organisation as an independent actor to be goal-directed accentuates the belief that an organisation can set itself the goal of becoming an authentic, ethical and trustworthy organisation, and that it will be able to achieve that due to its agency characteristics. However, even more relevant is the point that it *should* set out to become an ethical and trustworthy organisation, or it will risk losing approval to operate from its stakeholders, who hold the organisation responsible for its actions.

The relevance of this perspective for the focus of this study lies not only in delineating the system that will be examined as the for-profit organisation as a social actor, but also in clarifying the role of employees, as representatives of the organisation, in operationalising the role and behavioural principles prescribed by the organisation as a social system. Another relevant point is the role of stakeholders in holding an organisation accountable and responsible for its actions and behaviour.

The theory of action will now be examined to locate trust within a corporate context.

5.4 THEORY OF ACTION: A SPECIFIC APPROACH TO SOCIAL THEORY

In order to discuss trust as a subjective social reality within an organisational environment, the theory of action as an approach to social theory will be reviewed.

5.4.1 The social versus the functional theory of action

The social theory of action sees individuals as being purposeful and goal directed; as being guided in the first place by a need to solve a particular problem in order to achieve a specific goal. However, individuals' actions are also seen to be influenced by their own interests and values as well as the rewards and constraints imposed by the social environment (Argandoña, 2008:436; Coleman, 1986:1310).

The primary issues here are the connection between the intentions or actions of individuals, the interaction between the individual (as 'actor' or 'active agent') and his environment and the consequences or outcome of their decisions and actions on the wider macro-social level (Argandoña, 2008:436).

Coleman (1986:1310) notes that "… the functioning of society as well as the engine of social change could be grounded in the purposive actions of individuals, taken in particular institutional and structural settings that shaped the incentives and thus the action". Based on this, a social system such as a for-profit organisation might be shaped by human will.

This is in contrast to the functional theory of action, which focuses on the functions of any institution or social configuration, but ignores the role that the individual plays within the institution (Coleman, 1986:1311). The criticism levelled against this theory was that it did not provide for any possibility of the normative evaluation of institutions or social configurations, since it "… never descended to the level of individuals, whose satisfaction (or dissatisfaction) provides our soundest basis for evaluating social configurations" (Coleman, 1986:1311).

In order to discuss the concept of corporate trust, which is where an individual makes a normative evaluation of the organisation, the *social* theory of action, rather than the functional theory, is used as point of departure in this study. Based on this theory the 'actor' (individual or organisation) is regarded as acting purposively (Coleman, 1986:1312; King *et al*., 2010:291).

5.4.2 Purposive actions of individuals and organisations

The social theory of action is particularly relevant to this study, since it substantiates the view that an organisation can and should foster and earn its stakeholders' trust. On the one hand, this is because the organisation, as an independent actor, is able to take firm and purposeful actions which, as discussed, can influence and guide the behaviour of its employees as members of the organisation. A manager (as a representative of the organisation) also takes purposeful action when he decides to create mutually trusting relationships as a matter of strategic choice (Wicks *et al*., 1999:99).

On the other hand, a for-profit organisation needs to acknowledge that its internal and external stakeholders are also able to take purposeful actions – actions that can be either beneficial or detrimental to the sustainable economic performance of the organisation. The stakeholder as actor takes purposeful action by making a normative evaluation of the organisation, and by deciding on that basis how to behave towards it.

5.5 DECISION THEORY: A SPECIFIC APPROACH TO THE THEORY OF ACTION

Decision theory, as a particular approach to the social theory of action, will now be briefly examined to establish the relevance of consistent organisational behaviour to trust, as a subjective social reality, within a corporate context and to position trust as the key link between the theory of organisations and ethics. This theory also further justifies the inference that an organisation, as a purposeful system, can deliberately construct and manage the level of trust that its stakeholders have in it.

5.5.1 Introduction to decision theory

The basic premise of decision theory is this: a decision-maker in an organisation, who is faced with a problem or an unsatisfactory situation, will resolve to perform an action that will hopefully resolve the problem (Jones, 1991:380). The difficulty that the decision-maker faces is on what basis he should make the decision, and how he should assess which action is the right one to satisfy the need and so resolve the problem (Argandoña, 2008:436).

Traditional decision theory has two inherent limitations: the first is the assumption that a decision-maker has to satisfy only one need at a time, and the second is the assumption that a decision can be made in isolation, which repudiates the fact that the results of solving one problem affect the probability of solving others. In explaining how these limitations have been addressed in decision theory, Argandoña (2008:436) cites the pioneering work of Juan Antonio Pérez López[1], who added two elements to the basic premise of decision theory in his conceptualisation and extension of decision theory.

Pérez López (in Argandoña, 2008:436) theorises that the decision-maker (or 'active agent') is aware in the first place that the need will recur and, in the second place, that he has many other needs which he may not be aware of at the moment of making his decision, but which he knows he will have to satisfy, either now or in the future, once he becomes aware of it. By acknowledging this interrelationship between decisions, Pérez López repositions decision theory firmly as a social systems theory.

A brief overview of this extended understanding of Pérez López's decision theory will be expedient at this stage, particularly since it attributes a dominant role to ethics (Argandoña, 2006:2) in an organisational context. As such, it provides an extremely constructive basis from which to conceptualise corporate trust as a means to help ensure the long-term economic success of the organisation in a sustainable manner (Ingenhoff & Sommer, 2010:339), as well as being a result of the processes by which the various components of the organisation interact with one another and with their environment (Kramer, 1999:570).

5.5.2 <u>Principles of decision theory and its relevance to organisational behaviour</u>

As a point of departure, Argandoña (2008:436) observes that a decision-maker needs to evaluate the proposed action from three points of view: how well the proposed action will satisfy the current need, what effects it will have on the decision-maker's ability to satisfy the same need when it recurs in the future and how the proposed action will affect the decision-maker's ability to satisfy this specific need as well as all his other needs, now and in the future.

[1] *Professor Juan Antonio Perez Lopez (1934-1996): His work is little known, because it is mainly written in Spanish (Argandoña, 2008:435).*

An action that consists of an interaction between the decision-maker (the 'active agent') and his environment or another person (the 'reactive agent') is then chosen based on three criteria: effectiveness, efficiency and consistency. In explaining these key concepts, Pérez López (in Argandoña, 2008:436,437) defines effectiveness of an action as *"… the extent to which the action contributes to achieving the specific purpose of the action"*; efficiency of an action as *"… the value of the learning brought about by the decision", which presupposes that a skill has been learnt which will make it easier to satisfy the same need when it recurs in the future*; and consistency of an action as *"… the value for the active agent of the learning that takes place in the reactive agent as a result of the experience of the interaction", and which will make future interactions either easier or more difficult* (Argandoña, 2008:436,437).

While it is accepted that consistency in decisions affects the longer-term effectiveness and efficiency of actions in the organisation (Argandoña, 2008:438), the argument is extended to include the view that this consistent decision-making should be based on normative rules, or as Hosmer (1995:395) observes, on the classical ethical assertion that a 'good' decision is one that is not only focused on the short-term self-interest of the decision-maker, but also takes the valid self-interests of others into account.

Hosmer (1995:398) also refers to Kant's description of goodwill, and notes that he had logically shown "… that the only will that could be called 'good' without qualification was the will that followed the universal law that if it was right for one person to take a given action then it must be right for all others to be encouraged to take that same action". Essentially, it is then held that ethics should be guiding organisational behaviour.

This is similar to what Goodpaster (2007:28) proposes. In analysing two national scandals in the USA, namely the fraud perpetrated by Wall Street investment banker Martin Siegel and the explosion of the space shuttle Challenger on 28 January 1986 (2007:16), Goodpaster identifies the underlying patterns that formed part of the decisions made in both these situations, which led to disastrous results and ended careers. Based on his analysis of what fundamentally led to these scandals, Goodpaster (2007:28) coins the term 'teleopathy' to refer to the unbalanced pursuit of purpose in either individuals or organisations, which is "… a habit of character that values certain limited objectives as supremely action-guiding, to the relative exclusion not only of larger ends, but also of moral considerations about means, obligations, and duties".

Goodpaster (2007:28) observes that, in its most extreme form, "… teleopathy involves a suspension of ethical awareness as a practical force in the decision-making process. It substitutes for the call of conscience the call of very different decision criteria: winning the game, achieving the objective, following the rules laid down by some goal-oriented framework independent of ethical reflection." According to Goodpaster (2007:30), the indications of teleopathy, such as goal fixation, rationalisation and detachment, should warn the leadership of a decision-making pattern that has lost perspective and balance. He argues that the only practical response to this hazard and risky mindset is to accept ethics as the underlying framework to guide decision-making (Goodpaster, 2007:15).

5.5.3 Ethics as a guide to consistent organisational decisions and behaviour

Argandoña (2008:435) notes that Pérez López used ethics as his recourse to define the characteristic behaviour of human beings, both as individuals and as members of organisations. Since human decisions cannot be scientifically predicted, Pérez López argued that only the "… most profound of all sciences (ethics) can predict the consequences of decisions for the improvement of the actual decision-maker". Argandoña (2008:435) also comments that Pérez López's views represented a break with the mainstream scholarly thinking of the time, which regarded economics "… as a science free of value judgments that excludes any role for ethics, which, it is assumed, is limited to subjective, unscientific judgments".

In line with this, Moss Kanter (2011:68) emphasises that corporate leaders of great organisations in the twenty-first century are those who, in developing an institutional perspective, "… internalize what economists have usually regarded as externalities and define a firm around its purpose and values". As such, these leaders create frameworks that use societal and human values as decision-making criteria, instead of viewing organisational processes merely as ways of extracting more money.

In building his theory of action and in particular his position on decision-making theory, Pérez López endeavoured to incorporate all the facets of reality that are relevant to a decision, which included an appreciation for the role that ethics plays. According to Argandoña (2008:443), this was because Pérez López maintained that a disregard of ethics would leave any action theory dreadfully incomplete, based on his argument that "… the realities included on the ethical plane are realities that condition what happens on other more superficial levels that are more apparent".

Jones (1991:367) defines an ethical decision as *a decision that is both legal* and *morally acceptable to the larger community, whereas an unethical decision is either illegal* or *morally unacceptable to society*.

5.5.4 Trust as the connecting link between theory of organisations and ethics

The for-profit organisation as a social system, composed of several actors, is then an emerging consequence of the interdependent actions of all the actors who make up the system (Coleman, 1986:1311). This has three implications for the concept of corporate trust.

First, trust forms an integral part of the formulation of strategy in an organisation and therefore the actions of managers as key decision-makers of the organisation have a direct impact on the levels of trust that are created with stakeholder groups (Wicks *et al*., 1999:99). Secondly, a for-profit organisation has to earn the trust of its individual stakeholders – it cannot merely command trust in itself (McEvily *et al*., 2008:559; Swift, 2001:22). Lastly, if any of the stakeholders lose their trust in the organisation, they could take action, and through their individual actions and behaviour, put pressure on the organisation to change (Gillespie & Dietz, 2009:127).

"Trust is therefore a result of 'proper' decisions and actions, and proper decisions and actions are those that follow the ethical principles of analysis." (Hosmer, 1995:399). By using the principles of decision theory, which positions ethics as the main criterion that can ensure consistent decision-making and behaviour in a for-profit organisation, ethical behaviour is then posited to be a key strategy that an organisation can employ to earn its stakeholders' trust, which accentuates the need for it to become an ethical, trustworthy organisation.

To understand trust from the perspective of the trusted is to understand that trust is more than just a device for reducing transactions' costs or for easing business operations. "To understand the importance of being trusted is to understand the way in which the responsibility for trust reposed can affect character. It can create virtue where little had previously existed." (Mitchell, 2001:110).

5.6 CONCLUSION: THEORETICAL BASIS FOR THE TRUST CONSTRUCT

Trust, as a social and systemic reality, fulfils a functional role in both interpersonal and corporate relationships, since it helps to enable meaningful interactions between people as well as a for-profit organisation and its internal and external stakeholders. Since the organisation is dependent on its stakeholders to achieve its goals, its relationships with these stakeholders are characterised by complexity and uncertainty, which poses a risk to the organisation that needs to be managed. The presence of trust, as an outcome of the systemic way in which the organisation interacts with its environment, is regarded as a key strategy that can be used to manage and reduce this risk (Bachmann, 2006:395).

Positioned as an independent social actor in its own right, a for-profit organisation has the authority to act as it sees fit, since its stakeholders have granted it the legal and moral status to do so. This in turn highlights its very dependency on its stakeholders, who can act purposefully and decide to either assist or hinder the organisation in achieving its goals. Since stakeholders hold the organisation accountable for its actions, they can revoke the status and authority they have bestowed on the organisation, should the organisation not meet their expectations.

A for-profit organisation can mitigate this risk, since it also has the ability to act purposefully. As both an open, social system and a social actor, it can purposefully initiate activities and adaptations from within and use the information it receives from its stakeholders concerning its outputs to transform itself and its future outputs in order to achieve its objectives.

This study posits that by establishing its identity and goals as an ethical and trustworthy for-profit organisation, it can direct and guide the behaviour of employees as its representatives to act in accordance with what it stands for. It can also use its corporate communication activities to showcase its identity, character, values and activities, so that its stakeholders can get to know the organisation, and based on their positive assessment of its past and current behaviour (its reputation), stakeholders can then come to trust the future actions of the organisation.

Corporate trust is therefore conceptualised as a multi-dimensional (Kramer, 1996:221) and systemic sociological reality that exists in an organisational context – a consequential reality which emerges based on the purposeful actions and outcomes of the interdependent relationship between the for-profit organisation as an independent actor and its internal and external stakeholders. Trust is regarded as a critical mechanism for reducing risk (Bachmann, 2006:395) and enabling an organisation to achieve its goal of sustainable economic performance (Einwiller & Will, 2001:6).

However, since this study contends that trust is an outcome of a good corporate reputation – only if that reputation is built on the back of an organisation's single, authentic identity as an ethical and trustworthy corporate citizen – the reputation construct will be discussed next.

6 THEORETICAL FOUNDATION FOR THE REPUTATION CONSTRUCT

6.1 OVERVIEW OF THE REPUTATION CONSTRUCT DISCUSSION

Since corporate identity is regarded as the foundation of corporate reputation (King & Whetten, 2008:193), an overview of social identity theory and its link to organisational identity theory is provided here to serve as the theoretical basis of the reputation construct. Using the perspective of the organisation as social actor, the link between an organisation's legitimacy, identity and reputation is explored to ground the reputation construct theoretically, serving as preamble to a more detailed discussion of the specific causal link between identity, reputation and trust which follows in Chapter 5.

6.1.1 Legitimacy and identity of the organisation as social actor

Based on the perspective of the organisation as social actor that is applied in this study, as discussed, an organisation is understood to be a legitimate and purposeful social actor in its own right, one that is capable of behaving in an intentional manner (King *et al*., 2010:291), and one that is granted its legitimacy by society – by its stakeholders.

King and Whetten (2008:192) observe that legitimacy and reputation are perceptions of approval of an organisation's actions based on stakeholders' evaluations, and as such both of these can be regarded as intangible assets that organisations rely on "… to enhance their performance and chances of survival". Contrary to conventional thinking, this study supports King and Whetten's (2008:192-193) view of reputation as an extension of legitimacy, since both legitimacy and reputation are regarded as being connected through an organisation's adoption of a particular social identity.

In the literature on organisational identity, emphasis is placed on the realisation that identity is not only an internal concept, which is defined by the leaders of an organisation, but also a concept that is constructed via interaction with internal and external stakeholders (Gioia, Schultz & Corley, 2000b:146). Brickson (2000:148) observes that organisational identification processes possess both static and dynamic aspects driven by the needs of stakeholders at all levels of analysis. This implies that, although the leaders of an organisation need to take the lead in adopting and defining the organisation's identity, they cannot and should not do this in isolation.

It is suggested that when leaders develop a corporate identity that categorically incorporates and accommodates values and beliefs shared by their stakeholders, they ensure that their stakeholders can, and will want to, fully associate and identify with it, and that they will therefore support and participate in the maintenance of the new identity. By taking their internal and external stakeholders' needs and expectations into account, the leaders then basically enable the organisation's stakeholders to help co-create its desired identity (Argandoña, 2008:441; Gao & Zhang, 2006:729; McPhee & Zaug, 2001:585). This is reminiscent of Selznick's view (1948:32) of an authentic and mutually shared value system, which will enable the stakeholders to associate the organisation’s values with their own system of values and beliefs in an enduring manner and use those values to guide their decisions and actions to do the right thing (Cartwright & Craig, 2006:748; Marsden & Andriof, 1998:338).

Grunig (2003:219) highlights the significance of shared values and consistent behaviour when he endorses Pfeffer’s definition of organisational legitimacy as “… *the congruence between social values and organizational actions”.* In addition, Grunig (2003:219) regards legitimacy as a key attribute of an organisation’s relationship with its stakeholders, which he describes as a relationship in which both parties recognise the importance of the other. A for-profit organisation that wants to build a strong corporate reputation, which will enable it to earn its stakeholders’ approval and trust based on their evaluations of the organisation, will do well to keep this in mind when (re)defining its identity.

This assertion is based on Selznick’s (1948:28) proposal that the actual structure of an organisation is a consequence of the mutual and reciprocal influences of and reactions and adaptations to the interactions between the organisation and its external environment. This view still has merit for the focus of this study, in that it provides the basis for examining how the ‘real’ structure of an organisation can be established, maintained and measured.

This study asserts that a for-profit organisation that includes as part of its inherent character and basic focus the need to behave in a transparent, ethical and trustworthy manner in its quest for sustainable economic growth, albeit in the longer term, will be able to create an institutionalised culture to guide the behaviour of its employees (Pirson & Malhotra, 2008:10; Pirson, 2009:8; Vanneste *et al*., 2011:23) and a cooperative external environment. A for-profit organisation’s identity, characterised by fundamentally shared values, goals and expectations, can then help to earn stakeholders’ trust if the organisation builds its corporate reputation on this basis.

It is understood that the reference to the organisation as social actor does not literally imply that organisations are indeed human, but rather “… that their substance or their actions can be understood as being in some meaningful way *similar* to that of a citizen”

(Moon *et al*., 2003:3). An organisation is then regarded to have a personal and social identity, similar to the personal and social identity of any individual (Cooren, Kuhn, Cornelissen & Clark, 2011:1159). As these issues have already been discussed earlier in this chapter, these points are merely reiterated to serve as backdrop for further discussion of identity theory.

6.1.2 Social identity theory and its link to corporate identity

Research on organisational identity has been influenced by various disciplinary perspectives, particularly by social and cognitive psychology. Social psychological research has mainly focused on how individuals categorise themselves and others into various social categories, such as organisational, gender or age groups (Ashforth & Mael, 1989:20; Hogg & Terry, 2000a:121). The concept of social identity, as first introduced by Tajfel, is defined as "*… the individual's knowledge that he belongs to certain social groups together with some emotional and value significance to him of this group membership"* (Hogg & Terry, 2000a:122).

Social classification serves two functions. In the first place, it cognitively segments and orders the social environment, providing the individual with a systematic means of defining others. Secondly, social classification enables the individual to locate or define himself in the social environment (Ashforth & Mael, 1989:20-21; Hogg & Terry, 2000a:122).

Within the framework of identity theory, the self-concept is comprised of a personal identity as well as a social identity (Pratt & Foreman, 2000:142). An individual's personal identity (which largely features in interpersonal situations) encompasses distinctive individual characteristics, such as bodily attributes, particular abilities, psychological traits and unique interests; whereas his social identity (which largely features in group situations) involves relevant and significant group classifications.

Social identity theory is concerned with the latter and starts from the assumption that identity is derived primarily from group memberships (Ashforth & Mael, 1989:21; Brown, 2000:746-747; Olins, 2003:57).

- ***Social identity theory***

Social identity theory is a social psychological analysis of the role of self-conception in group membership, group processes and intergroup relations. In this context, a group is regarded as existing psychologically if three or more people construct and evaluate themselves in terms of shared attributes that distinguish them collectively from other people or groups (Hogg, 2006:111).

Self-categorisation theory specifies the operation of the social categorisation process as the cognitive basis of group behaviour, where the social categorisation of self and others into ingroup and outgroup accentuates the perceived similarity to the relevant ingroup prototype – as a cognitive representation of features that describe and prescribe attributes of the group (Hogg & Terry, 2000a:123). Social identity rests on intergroup social comparisons that seek to confirm or establish "… ingroup-favoring evaluative distinctiveness between ingroup and outgroup, motivated by an underlying need for self-esteem" (Hogg & Terry, 2000a:122). Social identification is then the perception of oneness or identification with some human aggregate or group, and in this regard, it provides a partial answer to the question: "Who am I?" (Ashforth & Mael, 1989:21).

A dyad is not regarded as a group, since it is not possible to infer group norms from the behaviour of just one other person (Hogg, 2006:116). A social group then consists of more than two people who share the same social identity, and who identify and evaluate themselves in the same way – individuals who have the same definition of who they are, what attributes they have and how they relate to and differ from people who are not in their group or who are in a specific outgroup. Group membership is then a matter of collective self-construal; of 'we' and 'us' versus 'them' (Hogg, 2006:115). Social identity theory proposes that people strive to achieve or maintain a positive social identity in order to boost their self-esteem, and that this positive identity derives from favourable comparisons that can be made with similar groups (Brown, 2000:747).

In terms of how they categorise themselves, individuals then seek to increase or sustain their positive self-esteem by positively differentiating their ingroup from a comparison outgroup on a certain valued dimension (Hogg & Terry, 2000a:122). This quest for positive distinctiveness means that when a person's sense of self is defined in terms of 'we' (i.e. social or group identity) rather than 'I' (personal identity), they strive to see 'us' as different from, and preferably better than, 'them' in order to feel good about who they are and what they do (Cooren *et al*., 2011:1159). The definition of others and the self are then largely relational and comparative, since an individual defines himself relative to individuals in other groups. Positive and negative intergroup comparisons have been found to affect a member's self-esteem accordingly (Ashforth & Mael, 1989:21-22; Brown, 2000:755).

An individual will define himself in terms of the group(s) that he perceives himself to be an actual or symbolic member of, and as such he will perceive the fate of those group(s) with which he classifies himself as his own. Social identification is then seen as personally experiencing the successes and failures of the group. As such, identification is often maintained in situations involving great loss or suffering, missed potential benefits, failure, and even expected task failure (Ashforth & Mael, 1989:21). Extensive research has shown that groups perceiving themselves to hold similar norms and attitudes have been found to show more intergroup attraction and less bias than dissimilar groups (Brown, 2000:757).

Since social identification then appears to derive from the concept of group identification, both terms can be used interchangeably (Ashforth & Mael, 1989:21). In line with social science literature, group identity is viewed as an important component of most individuals' psychological makeup, and it is believed that in situations where group identity is brought into play, individuals appear to consider the group's welfare as well as their own.

Stout and Blair (2001:47-48) observe that this argument is amply supported by the social dilemma evidence. Players who perceive their fellow players as members of their own ingroup are more likely to cooperate than those who see themselves as playing against members of an outgroup. Based on their survey of the extensive experimental evidence produced over the past four decades on human behaviour in 'social dilemmas' (as prepared by David Sally), Stout and Blair (2001:48) note that "… evidence of the importance of group identity can be seen in the consistent finding that allowing the players to communicate with each other in a social dilemma significantly increases the incidence of cooperation. Sally's meta-analysis, for example, found that allowing communication raised base cooperation rates in repeated games by 40 percentage points." A rationale offered for this increased cooperation, is the possibility that communication promotes feelings of group identity (Stout & Blair, 2001:48).

This is relevant to an organisation, since it shows that a sense of group identity can be fostered through stakeholder communication, which in turn is important to build a strong corporate reputation in order to earn stakeholders' trust and support.

- ***Organisational identity theory***

While organisational identity is by nature more removed, varied and diverse than personal identity (Gioia *et al*., 2000b:145), organisational identification can be regarded as a specific form of social identification (Ashforth & Mael, 1989:22). Consequently, an extended perspective of social identity theory is used to inform an understanding of organisations and organisational behaviour (Hogg & Terry, 2000b:150). While somewhat dated, the formative work done by Ashforth and Mael (1989) is included in this overview of social identity theory in an organisational context, since their work represented the first systematic introduction of social identity theory to organisational psychology (Hogg & Terry, 2000a:122).

Based on the literature on organisational identity, several factors that will most likely increase the tendency of individuals to identify with the organisation as a group – and therefore commit to and support the organisation – can be identified. The first factor is the *distinctiveness* of the for-profit organisation's values and practices in relation to those of comparable organisations, which serves to separate that which is characteristic of the organisation and can be used to differentiate it from other organisations, providing it with a unique identity (Ashforth & Mael, 1989:24). This underscores the suggestion of adopting a single, value-based corporate identity as the foundation of a corporate reputation that will earn stakeholders' trust.

The other factors include the *prestige* of the organisation, which is based on the argument that, through intergroup comparison, social identification affects self-esteem and that individuals often cognitively identify themselves with a winner; the *prominence* and awareness of comparable organisations as outgroups, which reinforces an individual's awareness of his ingroup; and the effects of intergroup *competition,* which leads to group lines being drawn more sharply, values and norms being underscored, and the we/they differences being accentuated (Ashforth & Mael, 1989:24-25). This underscores the suggestion of building a corporate reputation (i.e. to make sure that it is 'being seen') on the back of the organisation's single, value-based identity to earn stakeholders' trust.

According to the literature on organisational identity, there are at least three consequences that make social identification relevant to organisations. The first is that individuals tend to choose activities that are congruent with prominent aspects of their own identities, and they support the institutions that embody those identities (Ashforth & Mael, 1989:25; Hogg & Terry, 2000a:123). Therefore it is likely that identification with a for-profit organisation will enhance internal and external stakeholders' support and commitment.

A second and related consequence is that social identification affects the outcomes that are usually associated with group formation, including intragroup cohesion, cooperation, altruism and positive evaluations of the group. Therefore it is likely that identification with an organisation may engender the internalisation of, and adherence to, the organisation's values and norms and homogeneity in attitudes and behaviour and that it would be associated with internal and external stakeholders' loyalty to, and pride in, the organisation and its activities (Ashforth & Mael, 1989: 26; Hogg & Terry, 2000a:123).

In the third place, social identification reinforces the very antecedents of identification, including the distinctiveness of the group's values and practices, group prestige and the salience of and competition with outgroups. Therefore it is likely that identification with an organisation will let the values and practices of the ingroup become more salient and be perceived as unique and distinctive by the organisation's internal and external stakeholders (Ashforth & Mael, 1989:26; Hogg & Terry, 2000a:127).

It is suggested that the greatest contribution of social identity theory to the literature on organisational behaviour is perhaps the recognition that a psychological group is far more than an extension of interpersonal relationships. Identification with a collectivity can arise even in the absence of interpersonal cohesion, similarity or interaction and yet have a powerful impact on affect and behaviour (Ashforth & Mael, 1989:26). In crediting a collectivity with a psychological reality beyond its membership, social identification then enables the individual to conceive of, and feel committed to, an organisation or corporate culture, which in turn makes group commitment and behaviour possible.

This is possible because social interaction involves the motivated manipulation of symbols through speech, appearance and behaviour by people who are strategically competing with one another to influence the frame of reference within which accessibility and fit interact (Hogg & Terry, 2000a:125). The critical point here is that the manipulation of symbols should not be intended to deceive, but rather to ensure and enable the alignment of speech, appearance and behaviour.

As observed by Olins (2003:56): "Corporate identity – real corporate identity that is – is about behaviour as much as appearance, and certainly about reality, as much as symbolism. Whenever behaviour and appearance are linked, real corporate identity emerges." This dynamic perspective on identity and self-conceptual prominence has clear implications for an organisational context.

Corporate identity is then primarily concerned with the way the organisation collectively demonstrates and presents its character to its stakeholders – in behaviour and appearance – in order to provide the basis on which stakeholders can make their assessments of the organisation *(*Balmer & Greyser*,* 2003a:54; Barnett *et al*, 2006:36; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29). This makes the definitive link between corporate identity and reputation (King & Whetten, 2008:193).

6.1.3 <u>Corporate identity as the backbone of corporate reputation</u>

The groundwork for the concept of organisational identity was laid by Albert and Whetten in 1985 (Barnett *et al*., 2006:33; Brickson, 2000:147), but it was Fombrun and Van Riel (2004:165-166) who developed this concept in the field of reputation studies when they described a corporate identity as consisting of "… (a) features that employees consider *central* to the company, (b) features that make the organisation *distinctive* from other companies … and (c) features that are *enduring* or continuing, linking the present and the past to the future".

This researcher defines organisational or corporate identity as *an organisation's inherent character; that which it is, what it stands for and can be held accountable for and it encompasses the vision and values of the organisation which effectively make it unique and distinctive from other organisations* (Balmer & Gray, 2001:979; Barnett *et al*., 2006:28,33; King & Whetten, 2008:195).

An organisation's unique identity originates from its vision, values, culture and behaviour, as well as its use of symbols and physical designs to present itself collectively to its stakeholders (Grunig, 2003:212). This collective presentation becomes institutionalised over time (King *et al*., 2010:295; King & Whetten, 2008:195) and as such that which is core to the organisation, that which is labelled and perceived as presumably most central, enduring and distinctive about the organisation's character, contributes to institutionalise the personality of the organisation (Albert & Whetten, 2003:78; Brickson, 2000:147; Cooren *et al*., 2011:1159; Gioia *et al*., 2000a:63; Hatch & Schultz, 2008:50; King *et al*., 2010:295; King & Whetten, 2008:195; Olins, 2003:56,64; Scott & Lane, 2000b:144).

This in turn allows for the identity of the organisation to create a social context and a set of expectations about appropriate behaviour. On the one hand, this helps to guide employees with a common understanding of the organisation, which influences their decisions and behaviour, without having to rely on the personal judgement of every employee (King *et al*., 2010:295-296). On the other hand, it is held that this also guides external stakeholders to have a common understanding and expectation of the organisation.

Essentially, stakeholders come to know and form an opinion of the for-profit organisation based on its collective, institutionalised presentation of its identity (reputation), which makes it at once recognisable and distinguishable from other organisations (Balmer &

Gray, 2001:979; Barnett *et al*., 2006:28,33; Gioia *et al*., 2000a:64; King *et al*., 2008:295). As such, the stakeholders will then either identify with the organisation 'in order to feel good about who they are and what they do' (Cooren *et al*., 2011:1159), or they will distance themselves from the organisation if they do not agree with what it does; with its 'social' identity. As Brown (2000:747) points out, individual members may – in the event of an 'unsatisfactory' social identity – seek to leave their group (the organisation) or find ways of achieving more positive distinctiveness for it (Brown, 2000:747).

This is in line with one of the key tenets of social and organisational identity theory, namely that people tend to identify with, support and commit to an organisation whose identity increases or contributes to their own positive self-esteem, self-consistency and self-distinctiveness, since the organisation's identity is compatible with salient aspects of their own identities (Ashforth & Mael, 1989:25; Brown, 2000:747; Scott & Lane, 2000a:47). Hogg and Terry (2000b:151) also suggest that people tend to identify with an organisation because they seek to reduce and/or avoid self-conceptual uncertainty.

Social identities "… constitute an organization's reference group and provide stakeholders with standards by which assessments of the organization are made" (King & Whetten, 2008:192). Corporate reputation then arises from common social comparison processes, whereby internal and external stakeholders use institutionalised standards to assess and compare organisations (King & Whetten, 2008:193). Through social identity selection, an organisation becomes linked to the critical social and cognitive mechanisms through which assessments of legitimacy and reputation emerge (King & Whetten, 2008:194).

In order to aid stakeholders' assessments of the organisation, an organisation as a social actor has to meet a key condition of successful social interaction, which is that it has to have identifying features – rendering it recognisable as a particular type of actor, as well as distinguishing it from all similar organisations (King & Whetten, 2008:195). A for-profit organisation that wants to build a strong corporate reputation and earn the trust and commitment of its internal and external stakeholders therefore needs to ensure that its identity is one that will enhance stakeholders' positive group identification to improve cooperation and support between it and its stakeholders. This study contends that the likelihood of this will be enhanced with the adoption of a single, value-based identity or character.

In accepting the view of a single corporate identity, the idea is also extended to a view of a single corporate reputation. A single corporate identity and reputation can also be referred to as a general or overall identity and reputation, as compared to coexisting stakeholder-specific identities and reputations for an organisation (Helm, 2007:243).

It needs to be highlighted that this concept of a single corporate reputation differs from the concept of a single reputation proposed by some authors, where a single reputation score is arrived at by weighing and combining the separate reputation scores from an organisation's different stakeholders (Bromley, 2002:41; Caruana, 1997:109). This study contends that a for-profit organisation should focus on building a single identity as an ethical and trustworthy organisation, and then use the same measurement to survey all its stakeholders in order to understand how they assess the organisation in terms of that single identity.

6.1.4 Manner in which messages and symbols are processed

Having discussed how the institutionalised identity of an organisation creates the social context and expectations about its behaviour, and the opportunity for stakeholders to identify with the organisation, it will be prudent to provide a brief overview of how people process messages and sensory inputs, and highlight the significance of this for the development of corporate reputation and trust.

Based on general theories of cognitive psychology, the manner in which messages are processed is conceptualised at three levels, namely sensory processes, perception and cognition (Grunig, 2003:213). These theories hold that message consumption starts with the sensory processes of sight, sound, taste, touch and hearing. However, since an individual cannot necessarily recognise, 'see' or pay attention to all the sensory stimuli in his environment, cognitive theories require a second stage of message consumption, namely perception. In this sense, perception means that in order for an individual to pay attention to objects in or messages from his environment, he should be able to perceive them, that is, "… to recognize objects or see patterns in sensory stimuli" (Grunig, 2003:214).

However, before the individual can remember or think about the objects or symbolic messages he receives, he must be able to construct mental representations or concepts of the objects or messages. This third stage of the process is referred to as cognition – as "… the process through which people develop beliefs about what is real or come to understand – from their perspective, of course – what they perceive" (Grunig, 2003:214).

Social psychology adds a fourth level to this process of message consumption, namely the concept of attitude, which is essentially "… evaluations of the objects and attributes in cognitions or the possible behaviors that are implied in cognitions" (Grunig, 2003:215). Petty and Cacioppo (in Grunig, 2003:215) define attitudes as *"… general evaluations people hold in regard to themselves, other people, objects, and issues".* In addition, attitude can be regarded as a behavioural intent.

Perception, cognition and evaluation are then the major processes that take place in the mind, but there is a definite link between these processes and actual behaviour. Grunig (2003:215) cites research by social psychologists that show that attitude, particularly in situations that are open to change, can predict behaviour. In noting the important link that cognitive theorists are making between cognition and attitude, Grunig (2003:215) observes that these theorists hold that "… people who construct new cognitive units – that is who *think* about – persuasive messages are most likely to change their attitudes, especially when they are highly involved in a situation to which the attitude applies".

The relevance of this is that any organisation that wants to establish a strong corporate reputation, one that will lead to the desired behaviour where its stakeholders will trust and support the organisation, needs to keep these processes in mind, not only when it plans and executes its communication, but more particularly also when it (re)defines its identity. The following explanation will serve to clarify this statement: People, over the long term "… organize their cognitions and attitudes into complex units of knowledge called schemas or schemata", which are broader sets of cognitive units, as well as evaluative and behavioural intentions (Grunig, 2003:216). This is what constitutes an individual's subjective knowledge about the organisation, and it is this knowledge that largely governs his behaviour. Psychologists have learned that people can organise their schemas in different ways, but most often "… the mind groups cognitions and attitudes because they have a 'family resemblance' … [that is] people remember and associate cognitive units that seem relevant and similar to them – i.e. cognitive units that resemble each other in the same inexact way that family members do" (Grunig, 2003:217).

This accentuates two key factors: on the one hand, it underlines the need for and the importance of a corporate identity that stakeholders can identify with, since it is in their identification with the organisation that stakeholders' commitment to and positive support of the organisation originate. On the other hand, this also highlights the need for the organisation to make itself known to its stakeholders by establishing its corporate reputation through its corporate communication and relationship-building activities.

These factors are discussed in greater detail in Chapter 5, where the link between identity and reputation and the key elements that are required to build a sustainable reputation will be outlined, in order to substantiate its relationship with trust.

6.2 CONCLUSION: THEORETICAL BASIS FOR THE REPUTATION CONSTRUCT

Corporate identity is regarded as the core foundation of corporate reputation. Just as an individual is responsible for shaping and presenting his own identity in order to improve interaction and cooperation with those around him, an organisation as an independent social actor in its own right is, and is held, responsible for managing its own character. It also has the responsibility to ensure that its stakeholders get to know who it is and what it stands for through its communication and reputation-building activities. Research has shown that communication promotes feelings of group identity (Stout & Blair, 2001:48).

However, it is held that stakeholders' commitment and support is largely dependent on who the organisation is, on the very identity that it adopts, demonstrates and presents. This study posits that by establishing its identity as an ethical and trustworthy for-profit organisation, it ensures that its core values will resonate on an emotional level with its stakeholders, and so increase the opportunity that its stakeholders will positively identify with it and its values. Since its stakeholders grant an organisation its legitimacy, they can justifiably expect and demand congruence between social values and the organisation's actions.

Corporate reputation is regarded as the assessment that stakeholders make of the organisation, based on that which it defines itself to be, its identity, which originates from its vision and its values. Since a for-profit organisation is dependent on the approval of its stakeholders to continue operating, its corporate reputation is an intangible asset that it relies on to enhance its own long-term sustainability (King & Whetten, 2008:192).

The reputation construct is theoretically grounded in social identity theory, which is extended to organisational identity theory. Social identity theory proposes that people categorise themselves and others into social groups, which is related to how they seek to achieve or maintain a positive social identity, which derives from favourable comparisons that can be made with similar groups (Brown, 2000:747), in order to boost their own self-esteem. By positively differentiating the group they belong to on some valued dimension, people's individual sense of self is then defined in terms of their social identity. This has significant consequences for an organisation.

Organisational identification can be regarded as a specific form of social identification (Ashforth & Mael, 1989:22). As such, it is held that just as an individual will derive his social identity from the relevant and significant groups that he identifies with and classifies himself as a part of (Ashforth & Mael, 1989:21; Brown, 2000:746-747; Olins, 2003:57), stakeholders of an organisation will tend to identify with, commit to and support an organisation whose identity increases or contributes to their own positive self-esteem and self-distinctiveness, since the organisation's identity is compatible with salient aspects of their own identities (Ashforth & Mael, 1989:25; Brown, 2000:747; Scott & Lane, 2000a:47).

While stakeholders' perception, cognition and evaluation of an organisation take place in the mind, there is a definite link between these processes and actual behaviour, since it is through their identification with the organisation that stakeholders' commitment and positive support originate. When stakeholders feel good about who the organisation is and what it does, it will make them feel good about who they are. This in turn will lead to their commitment to and supportive behaviour for the organisation. When stakeholders do not agree with what the organisation does, when they cannot identify with its 'social' identity, they will distance themselves from it and withdraw their support.

Based on the literature on organisational identity, several factors that will most likely increase the tendency of individuals to identify with and therefore commit to and support the organisation are identified: the distinctiveness of the organisation's values and practices, which provides it with a unique identity; the prestige of the organisation; the prominence and awareness of comparable organisations as outgroups; and the effects of intergroup competition, which lead to group lines being drawn more sharply and to values, norms and the we/they differences being emphasised (Ashforth & Mael, 1989:24-25).

At least three consequences that make social identification relevant to organisations are identified. The first is that since individuals tend to choose activities that are congruent with prominent aspects of their own identities (Ashforth & Mael, 1989:25; Hogg & Terry, 2000a:123), it is likely that identification with an organisation will enhance internal and external stakeholders' support and commitment.

A second consequence is that social identification affects the outcomes that are usually associated with group formation, such as cooperation and altruism, making it likely that stakeholders' identification may engender the internalisation of, and adherence to, the organisation's values and norms; homogeneity in attitudes and behaviour; and stakeholders' loyalty to, and pride in, the organisation and its activities (Ashforth & Mael, 1989: 26; Hogg & Terry, 2000a:123).

In the third place, social identification reinforces the very antecedents of identification, including the distinctiveness, and therefore stakeholders' positive perception, of the organisation's values and practices (Ashforth & Mael, 1989:26; Hogg & Terry, 2000a:127).

This underscores the suggestion of adopting a single, value-based corporate identity as the foundation of a corporate reputation that will earn stakeholders' trust as well as the suggestion of building a corporate reputation (i.e. to make sure that it is 'being seen') on the back of the organisation's single, value-based identity in order to earn stakeholders' trust.

In crediting a collectivity with a psychological reality beyond its membership, social identification then enables the individual to conceive of, and feel loyal to, an organisation or corporate culture, which in turn makes group commitment and behaviour possible. This is possible because social interaction involves the motivated manipulation (to ensure alignment, not to deceive) of symbols through speech, appearance and behaviour by an organisation that is strategically competing with others to influence the frame of reference within which accessibility and fit interact (Hogg & Terry, 2000a:125).

Real corporate identity is then about behaviour as much as appearance, and certainly about reality, as much as symbolism. "Whenever behaviour and appearance are linked, real corporate identity emerges." (Olins, 2003:56). This dynamic perspective on identity and self-conceptual prominence has clear implications for an organisational context. Based on its own selection of a social identity and the articulation of this desired identity, an organisation provides stakeholders with a promise; a standard by which they can make an assessment of the organisation, also in comparison to other similar organisations (King & Whetten, 2008:192).

It is against this promise that stakeholders can assess how well the organisation is fulfilling its promise to them, based on what they experience from its culture and actual behaviour, as well as what they hear about the organisation and learn from its use of communication, symbols and physical designs to present itself to its stakeholders. The organisation's reputation then emerges based on those collective social comparison processes, whereby stakeholders use institutionalised standards to assess and compare organisations (King & Whetten, 2008:193).

Corporate identity is then primarily concerned with the way the organisation collectively presents its character to its stakeholders – in behaviour and appearance – in order to provide the basis on which stakeholders can make their assessments of the organisation (Balmer & Greyser, 2003a:54; Barnett *et al*, 2006:36; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29). This makes the definitive link between corporate identity and reputation (King & Whetten, 2008:193).

7 THEORETICAL FOUNDATION FOR THE STAKEHOLDER CONSTRUCT

The last construct to be discussed in this theoretical chapter is the stakeholder construct. Stakeholder theory is very pertinent to the focus of this study since it provides a comprehensive connection between systems theory, social systems theory and the corporate trust concept, and it contextualises the key role that stakeholders play in influencing a for-profit organisation's long-term economic success and viability.

This serves as background to the assertion of this study that it is imperative for a for-profit organisation to pay close attention to how its stakeholders perceive it – to deliberately work at fostering an authentic relationship with its stakeholders, to earn its stakeholders' trust by being trustworthy in all it does and by building a concomitant corporate reputation.

It is then held in this study that a for-profit organisation, as a socially engineered system, is capable of purposive action and change – it can effectively integrate the concepts of stakeholder theory into its own corporate sustainability strategy and it can change and become a trustworthy, ethically responsible corporate citizen in order to earn its stakeholders' trust.

7.1 OVERVIEW OF THE STAKEHOLDER THEORY DISCUSSION

First, a brief background on stakeholder theory is provided, and the increased need for ethical decision-making at the start of the twenty-first century is highlighted. The key tenet of stakeholder theory is then briefly outlined, before the key approaches to stakeholder theory and the concept of stakeholder capitalism are discussed. The concept and role of stakeholders are then defined.

Next, stakeholder theory is discussed from an organisational perspective, within the context of the nature of a for-profit organisation, before the relevance of stakeholder theory to organisational performance is outlined. This is followed with an overview of stakeholder theory from a stakeholder perspective. In particular, stakeholders' sources of power and support are discussed.

The importance of ethics and values is then discussed, by outlining the principle of fairness, the role of ethics and values, and the link to trustworthiness and trust. This section on the theoretical foundation of the stakeholder construct is concluded with a brief summary, prior to providing the overall conclusion for this chapter.

7.2 OVERVIEW OF STAKEHOLDER THEORY

7.2.1 Background on stakeholder theory

Originating in the work of R. Edward Freeman (1984), the concept of stakeholders, referring to the groups or individuals that have a stake – a role and impact – in the success or failure of the for-profit organisation, has been developed (Freeman *et al*., 2010:xv). Consequently, Freeman is often described as the father of stakeholder theory (Friedman & Miles, 2006:19; Hatch & Schultz, 2008:151; Laplume *et al.*, 2008:1152).

While the stakeholder concept is implied in the works of the Stanford Research Institute (1963); Rhenman and Stymne (1965) in Sweden and Ansoff (1965) in the United States, Freeman was the first author to fully articulate the stakeholder framework in his seminal book *Stakeholder Management: A Stakeholder Approach* in 1984 (Friedman & Miles, 2006:19; Laplume *et al*., 2008:1156-1157).

Freeman's point of departure was that the existing management theories of the 1980s were "… inconsistent with both the quantity and kinds of change which [were] occurring in the business environment", since these theories emphasised the static nature of organisations and the predictable and relatively consistent nature of an organisation's external environment (Freeman, 1984:5).

In contrast to the simplicity of owner-entrepreneur organisations in the past, where 'doing business' consisted of buying raw materials from suppliers, converting it to products and selling it to customers and where the owner/manager/employee only needed to worry about satisfying customers and suppliers to make the business successful, organisations in the late twentieth century were larger, and much more complex (Freeman, 1984:5-6; Mackey, 2009:74). This meant that in order to be successful, the managers of an organisation needed to simultaneously satisfy the diverse needs and demands of multiple stakeholders, including owners, shareholders, employees, unions, customers, suppliers, government, consumer advocates, environmentalists, special interest groups, media and even competitors (Freeman, 1984:8-22; Friedman & Miles, 2006:1).

Freeman (1984:5) therefore held that a new conceptual framework was needed, one that would enable managers to turn the external changes – the emergence of new groups, events and issues which could not be readily understood within the framework of an existing model or theory – into internal change, by reassessing current objectives and policies in the light of new demands from the groups the organisation was dealing with, in order to reduce the uncertainty that the external changes brought about (Freeman, 1984:5,8,11,13).

Freeman's initial intent in 1984 was then to offer a pragmatic approach to strategy that urged organisations to be cognisant of their stakeholders in order to achieve superior performance (Laplume *et al*., 2008:1153), and he regards his work in 1984 as a framework for management, which aimed at developing "… a generalizable and testable approach to managerial strategic decision-making" (Freeman, 1984:4).

According to Laplume *et al*. (2008:1158), Freeman's overall stakeholder approach was "… unabashedly strategic in content because consideration of stakeholder interests was seen as playing an instrumental role in enhancing firm performance".

While the stakeholder concept had developed in a number of disciplines over the course of its history, Freeman (1984:48-49) drew on various literatures on strategic planning, systems theory, corporate social responsibility and organisational theory to develop an approach to strategic management, essentially focusing on showing how the stakeholder view would reconceptualise the concept of strategic management (Freeman, 1984:43; Freeman & Phillips, 2002:333; Freeman *et al*., 2010:xvi).

In their review of the literature on academic stakeholder theory as it developed between 1984 and 2007, Laplume *et al*. (2008:1152) analysed the content of 179 articles that directly addressed Freeman's work on stakeholder theory. These authors noted a substantial rise in stakeholder theory's prominence since 1995 and documented that the theory has detractors insofar as it questions the maximisation of shareholders' wealth as the most fundamental objective of business. These authors also noted that, "… [h]aving written several dozen articles, books, and book chapters on the subject, over the course of more than two decades, Freeman continues to act as stakeholder theory's senior trustee" (Laplume *et al*., 2008:1158).

While interest in stakeholder theory took root in the field of strategic management and then grew into organisational theory and business ethics, the theory's social responsibility element allowed it to blend into social issues in management. More recently, it has begun to enter the conversation about sustainable development (Laplume *et al*., 2008:1156; Mackey, 2009:76).

It is held that now in 2012, even more than before, there is a need to think differently about the strategic management of a for-profit organisation, particularly in terms of ensuring its own long-term economic sustainability (Mackey, 2009:103). This is particularly due to the dramatic changes that characterise the twenty-first century, such as the rise of globalisation, the dominance of information technology and the increased societal awareness of the impact of business on communities and society in general (Freeman *et al*., 2010:3).

These changes have brought about major challenges for private sector organisations, in that they can no longer rely on managing their organisations based on the dominant view of understanding business and management theory that was developed during less turbulent times, such as Weber's ideas about bureaucracy (Freeman *et al*., 2010:3).

7.2.2 Key tenet of stakeholder theory

The stakeholder view represents a departure from the standard and predominant understanding of business, namely that a for-profit organisation is merely a vehicle to maximise returns to the owners of capital. However, while the stakeholder view is often put forward simply as an alternative to this mainstream view of shareholder capitalism, Freeman instead holds that there is little direct conflict between the shareholder view and the stakeholder view (Freeman, 2008:166).

Essentially, stakeholder theory is held to be about business and capitalism, business being "… that human institution that is about value creation and trade" (Freeman & Phillips, 2002:340). As Freeman (2008:166) posits: "Stakeholder theory offers a different set of metaphors and ideas, with hope that we can make capitalism work better for us." As such, stakeholder theory is a more useful way to understand modern capitalism (Freeman *et al*., 2010:xv).

Increasingly, the relationship between capitalism and society is being questioned, particularly since the global financial crisis in 2008/2009 (Freeman *et al*., 2010:5; IISD, 2009; Mackey, 2009:73; Uslaner, 2010:111).

Freeman *et al*. (2010:xv) observe that the changes in the business environment in the twenty-first century "… necessitate a rethinking of the dominant conceptual models used to understand business", particularly in order to deal with the increased interest in understanding how capitalism, ethics, sustainability and social responsibility can be forged into new ways of thinking about business (Freeman *et al*., 2010:5). These authors suggest that stakeholder theory can contribute to solving some of the problems, particularly with regard to addressing the problems of value creation and trade, the ethics of capitalism and the prevailing managerial mindset that separates business and ethics in their decision-making (Freeman *et al*., 2010:4,5).

In particular, it is held that the problem of the ethics of capitalism originates from the fact that most theories of business rely on separating 'business' decisions from 'ethical' decisions (Freeman *et al*., 2010:6; Mackey, 2009:76). Stakeholder theory suggests that the adoption of the relationship between a for-profit organisation and its stakeholders as a unit of analysis provides a more effective way to conceptualise and deal with combining these issues (Freeman *et al*., 2010:5-6; Mackey, 2009:104). Stakeholder theory views organisations as systems that are dependent on their internal and external stakeholders for survival (Freeman *et al*., 2010:86).

Today's for-profit organisations can no longer assume the dominance of capitalism as the main means of organising value creation and trade, especially not if their concept of capitalism is based on an understanding of a kind of economics that assumes "… the questions of values and ethics [are] at best 'extra-theoretic' if not downright irrelevant" (Freeman *et al*., 2010:4). In an environment where people are increasingly aware of the effect of capitalism on society, it has become clear that an organisation that restricts its attention only to the economic effects of its business is putting its longer-term economic performance and survival at risk.

An organisation that is engaged in value creation and trade is held to be responsible to its stakeholders, those groups and individuals who can affect or who are affected by the organisation's actions. It is held that an organisation that recognises the joint interests of all of its stakeholders (not just its shareholders), and then works towards creating value for all of them, will be managing its business ethically and will therefore make its business work at its best (Freeman *et al*., 2010:9; Friedman & Miles, 2006:160).

Perhaps the most significant criticisms of stakeholder theory are that it violates the shareholder-manager relationship (Friedman & Miles, 2006:119) and the claim by some economists that stakeholder management promotes mismanagement because it gives managers too much power to distribute shareholder wealth in questionable ways (Friedman & Miles, 2006:122). For example, Jensen (in Laplume *et al*., 2008:1159) characterised stakeholder theory "… as an affront to 200 years of economic theory and research" and argued that "… stakeholder theory plays into the hands of special interests who wish to use the resources of firms for their own ends".

Jensen (2008:167) also observes that the danger of stakeholder theory, as he has seen it expressed in most cases, is that those who advocate it simply assume that managers would do the right thing so as to benefit society as a whole. He regards this position as naive for at least two reasons, in that managers would have no way of knowing how to best benefit society, and furthermore there would be widespread disagreement on how and what to do. “Moreover”, Jensen (2008:167) writes, “if adopted, stakeholder theory would do further damage. It would literally leave managers unmonitored and unaccountable in any principled way for their actions with the vast resources under their control. Now that’s a disaster.”

Conversely, Freeman believes that the key insight of stakeholder theory is that capitalism works because there is a jointness to the interests of at least customers, suppliers, employees, communities and financiers. “The role of the manager or entrepreneur is to capture the nature of that joint interest and create value for each and all. Where there is conflict, innovation kicks in and *more* [own emphasis] value gets created.” (Personal communication from Freeman, March 12, 2008, in Laplume *et al*., 2008:1179).

As Donaldson (2008:173) rightly notes, the assumption of the economy as a zero-sum game (that is, assuming that there is only a fixed amount of wealth available) was thrown out by a ‘young moral philosopher’ by the name of Adam Smith (widely cited as the father of modern economics and capitalism) in 1776, and replaced with a new understanding about how vast wealth and value could be created, especially through labour and voluntary exchange.

While economists such as Milton Friedman then hold that a successful business is characterised only by its ability to maximise profits for its shareholders, stakeholder theory holds a more extended view, namely that *in order to* maximise profits a for-profit organisation needs great products and services that customers want, solid relationships with suppliers that keep operations on the cutting edge, inspired and committed employees who stand for the company mission and push the company to get better, and supportive communities that allow businesses to flourish (Freeman *et al*., 2010:11; Mackey, 2009:83).

Mackey (2009:82-85) explains this profit paradox, by outlining that the best way to maximise profits over the long term is *not* to make profit the primary goal of the business. Rather, it is held that management should focus on fulfilling its role to optimise the health and value of the organisation as an interdependent system as well as the well-being of all its stakeholders instead, to achieve an end result which will also be the highest long-term profits for its shareholders.

Similarly, Freeman (2008:166) argues: “If a business tries to maximize profits, in fact, profits don’t get maximized, at least in the real world. The reason may be clear: tradeoffs are made in favor of financiers, and the tradeoffs are false ones due to complexity, uncertainty and bounded rationality.” He notes that Friedman and his followers may be focusing on a theory about the way markets work under certain kinds of conditions, and while he holds that this theory is useful for certain purposes, stakeholder theory, in his view, is not about markets and how they work. Stakeholder theory, according to Freeman (2008:166) is “… not a theory of the firm. Rather it is a very simple idea about how people create value for each other. It’s a theory about what good management is.”

Consequently, Freeman (2008:166) and Mackey (2009:83) suggest that the primary responsibility of an organisation’s leadership is to create as much value as possible for their stakeholders, because that is how they create as much value as possible for their shareholders. In the case of conflict between stakeholders and shareholders, executives have to rethink the problem so the interests go together, since no stakeholder interest stands alone. Freeman also acknowledges that sometimes interests will conflict and executives will have to make tradeoffs. “When that happens, the executive has to figure out how to make the tradeoffs and figure out how to improve the tradeoffs for both sides. Managing the stakeholders is about creating as much value as possible for stakeholders without resorting to tradeoffs, or fraud and deception.” (Freeman, 2008:166).

Essentially, stakeholder engagement, which denotes the allocation of resources to stakeholders, matters for the creation and distribution of economic value (Crilly, 2011:519). As such, stakeholder theory is about value creation and how to manage a business effectively, which is to create as much value as possible for all stakeholders, including its shareholders (Freeman *et al*., 2010:9; Friedman & Miles, 2006:150).

Stakeholder theory then unequivocally rejects the 'separation thesis', which holds that ethics and economics can be separated (Freeman, 2008:163; Freeman, Wicks & Parmar, 2004:364; Friedman & Miles, 2006:124). As Freeman *et al*. (2004:364-365) observe, "… dividing the world into 'shareholder concerns' [economics] and 'stakeholder concerns' [ethics] is roughly the logical equivalent of contrasting 'apples' with 'fruit'".

7.2.3 <u>Key approaches to stakeholder theory</u>

According to Freeman *et al*. (2010:212), Donaldson and Preston (1995) were the first to explicitly acknowledge the notion that the overall body of stakeholder theory can basically be categorised into three distinct parts. The three distinguishing parts or approaches to stakeholder theory are the descriptive approach, which refers to research that focuses on making factual claims about what managers and organisations actually do in terms of stakeholder relationships; the instrumental approach, which refers to research that focuses on the outcomes of specific managerial behaviour; and the normative element, which refers to research that focuses on what managers and organisations should do (Friedman & Miles, 2006:29).

The first two elements of stakeholder theory are unequivocally part of the social sciences and involve matters of fact. The normative element, however, is explicitly moral and situated in the ethical domain (Freeman *et al*., 2010:212; Friedman & Miles, 2006:36-37; Mackey, 2009:76). Each of these elements has its own specific role and methodology, and each plays an important role in stakeholder theory. Scholars differ, however, in terms of the nature of the relationship between these elements. Donaldson and Preston regard these as not being equal, in that they view the normative element as forming the central core of stakeholder theory, while the other two elements are held to fulfil a subordinate role (Freeman & Phillips, 2002:339). In contrast, Jones and Wicks claim that while there is an important connection between the three different elements, the differences between these are not sharp and clear-cut as suggested (Freeman *et al*., 2010:212).

Stakeholder theory is then seen as a theory of organisational management and ethics, as indeed all theories of strategic management have some moral, though often implicit, content (Freeman & Phillips, 2002:333; Phillips *et al*., 2003:480; Friedman & Miles, 2006:37; Mackey, 2009:76).

Stakeholder theory is distinct from other organisational management theories, because it addresses morals and values explicitly as a central feature of managing organisations. Since the ends of cooperative activity and the means of achieving these ends are critically examined in stakeholder theory in a way that they are not in many theories of strategic management, stakeholder theory is conceived in terms that are "… explicitly and unabashedly moral" (Phillips *et al*., 2003:481). However, while stakeholder theory is first and fundamentally a moral theory that specifies the obligations of a for-profit organisation to their stakeholders, Freeman also holds that it is not always possible to draw a sharp and clear distinction between these different elements of stakeholder theory (Freeman *et al*., 2010:212-213).

Based on Freeman's suggestion that "… all these forms of enquiry are forms of storytelling, and that, conceptually, all three branches have elements of the others embedded within them", Freeman *et al*. (2010:213) posit that the creation of compelling stories involves all three elements of stakeholder theory, and they support the additional element, as originally proposed by Donaldson and Preston in 1995, namely that stakeholder theory is also managerial, since it helps managers to create value for stakeholders and enables them "… to live better lives in the real world, not in some imaginary fantasy of philosophers".

Stakeholder theory is widely regarded among academic business ethicists as the most significant theoretical construct in their discipline. Normative ethical stakeholder theory articulates the view that a for-profit organisation ought to be managed in a way that achieves a balance among the interests of all its stakeholders (Friedman & Miles, 2006:182-183; Laplume *et al*., 2008:1179; Mackey, 2009:83; Marcoux, 2008).

7.2.4 <u>The concept of stakeholder capitalism</u>

As a possible answer to the question of whether there can be a systematic way to understand business activity that is both libertarian in spirit and attends to the managerial interests inherent in the stakeholder approach, Freeman and Phillips (2002:339) propose the concept of stakeholder capitalism, as part of their 'libertarian' defence of stakeholder theory. With this concept, they argue that "… strong notions of 'freedom' and 'voluntary action' are the best possible underpinnings for stakeholder theory, and in doing so, [they] seek to return 'stakeholder theory' to its managerial and libertarian roots found in Freeman (1984)" (Freeman & Phillips, 2002:331).

This concept is similar in sentiment to the concepts of moral, ethical and conscious capitalism that will be discussed in Chapter 3, but is discussed in greater detail here as part of the larger stakeholder theory discussion.

- ***Concept of freedom as a foundation for stakeholder theory***

The hallmark of libertarian theory is one of consent and agreement, where free people have the right to make agreements with others, even if some of those agreements limit their own freedom (Freeman & Phillips, 2002:341; Mackey, 2009:75). Based on three criteria for a libertarian theory, namely freedom, rights and the creation of positive obligations by consent, Freeman and Phillips posit that the reason "… why capitalism works is ultimately due to these three ideas and how they interact".

Business is founded and created on the idea that people are free to enter into agreements with one another, and that others are not permitted to interfere unless they are substantially affected by those agreements (Mackey, 2009:75). "Entrepreneurs see the possibility of creating value where others do not. They contract with suppliers, employees, suppliers of finance, and customers, as well as others, to start and build firms. In other words they create a set of positive obligations among those parties." (Freeman & Phillips, 2002:341).

Freeman and Phillips (2002:344) hold that "… the principle of continuous creation claims that the creative force of humans is the real engine of capitalism. One creation doesn't have to destroy another; rather there is a continuous cycle of value creation which raises the well-being of everyone. People come together to create something, be it a new computer program, a new level of service … or simply to work together. It is the creative spirit that results from freedom-loving people that makes capitalism work."

- ***Concept of voluntary action as a foundation for ethical stakeholder theory***

Voluntary action is the well-spring of capitalism. All the stakeholders of a business, such as customers, suppliers, employees, financiers and communities voluntarily exchange with the business to create value for themselves and for others. The voluntary support of each group is vital to the success of the endeavour and the outcomes are synergistic. This is the cooperative common-sense part of business that every executive knows (Mackey, 2009:75-76). “When stakeholders pool their resources to create something; no one has the right to prevent their actions, provided they do not impose substantial harms on innocent third parties.” (Freeman & Phillips, 2002:341).

Value creation and trade is not a zero-sum game (Freeman & Phillips, 2002:341). This implies that there is a concomitant responsibility for both parties to the voluntary agreement that comes with exercising their freedom. “This voluntary exchange for mutual benefit is the ethical foundation of business and capitalism.” (Mackey, 2009:75). The alternative to the two principles of individuals’ freedom to voluntarily enter into agreements, and accept the associated responsibility that comes with exercising such freedom, is “… a view that capitalism rests on the idea that ‘anything goes’ and ‘let the buyer beware’”. (Freeman & Phillips, 2002:342).

Stakeholder capitalism then requires that freedom-loving human beings be at the centre of any process of value creation and trade, and it underscores the responsibility thesis that common decency and fairness are not to be set aside in the name of playing the game of business. “It suggests that we should demand the best behavior of business, and that we should enact a story about business that celebrates its triumphs, admonishes its failures, and fully partakes of the moral discourse in society as a routine matter.” (Freeman & Phillips, 2002:345). This is in line with Wood’s observations, when she suggests that an organisation built upon business ethics (versus the reverse) can be the repository of economic responsibility (Agle & Mitchell, 2008:181).

- ***Contribution of the concept of stakeholder capitalism***

While Freeman and Phillips do not propose the concept of stakeholder capitalism as the ultimate solution, they do highlight that it simply allows the possibility that business becomes a fully human institution. “Stakeholder capitalism bases our understanding and expectations of business not on the worst that we can do, but on the best. It sets a high standard, recognizes the common sense practical world of global business today, and asks managers to get on with the task of creating value for all stakeholders.” (Freeman & Phillips, 2002:345).

According to Freeman and Phillips (2002:345), stakeholder capitalism then invokes a focus at the level of *how* value is created “… rather than at the societal level of value distribution, or the accrual of large amounts of capital and control over it”. These authors suggest that, by focusing on these principles, capitalism can be reoriented toward an ethics of freedom and responsibility, ultimately to an approach that inherently marries business and ethics.

7.3 DEFINITION AND RELEVANCE OF STAKEHOLDERS

Freeman’s classical definition of a stakeholder is *“… any group or individual who can affect or is affected by the achievement of the organization’s objectives”* (Freeman, 1984:46; Friedman & Miles, 2006:1). It would seem that, while Freeman held that an organisation needs to deal with those groups that it can affect in order to be effective, he was mostly interested in the ‘is affected’ category to the extent that these stakeholder groups could potentially affect the performance and sustainability of an organisation (Laplume *et al*.,2008:1160-1161).

“To be an effective strategist,” Freeman wrote, “you must deal with those groups that can affect you, while to be responsive (and effective in the long run) you must deal with those groups that you can affect” (Freeman, 1984:46).

An example of stakeholders who can affect an organisation are those active stakeholders or stakeholder groups (also called special interest groups or ‘brand communities’) who may not be as directly involved in an organisation as employees, customers or shareholders are, but who do take a specific interest in it. These stakeholders can affect an organisation, in that they can either add huge value to the organisation if they support or endorse it, or exert influence to change or even stop the organisation's intended actions if they don't agree with them (Hatch & Schultz, 2008:192).

There are different views in the literature on who should be regarded as stakeholders, ranging from a narrow or restrictive view of stakeholders, that is, only those that yield power over organisations or take on risk; to an expansive or broad view of stakeholders that includes the powerless and even nonhuman entities such as trees and deities (Friedman & Miles, 2006:9; Laplume *et al*., 2008:1161).

However, in this study, where a strong emphasis is placed on the importance of stakeholders' identification with and support for an organisation to ensure its long-term economic sustainability, the outcome of work done by Mitchell, Agle and Wood in 1997 is supported. These authors, who synthesised approximately 20 different studies on stakeholder identification, concluded that managers pay attention to those stakeholders who have power in relation to the organisation, in that they possess valued resources; are deemed legitimate, in that they are socially accepted and expected; and can muster urgency, in that they have time-sensitive or critical claims (Laplume *et al*., 2008:1161).

A stakeholder is then defined in this study as *any person or group who has a direct interest, involvement or investment in an organisation, who can affect the organisation and its operations, or who can be affected by the organisation, its decisions and operations* (Hatch & Schultz, 2008:192-193; King, 2009:100; Steyn & Puth, 2000:5). A stakeholder is therefore regarded not just as a person or group of people "… who may benefit from or be harmed by the actions of the organisation" (Davies *et al.*, 2003:58-59), but as someone who can *also* either hinder or assist the organisation in its endeavours.

An organisation will therefore have multiple stakeholders, depending on the business of the organisation. Stakeholders can typically be grouped as internal stakeholders, such as employees, managers and unions, and external stakeholders, such as customers, shareholders, media, suppliers, special interest and activist groups and the public (Chun, 2005:93; Jones, 2007:28-31). Each stakeholder group will have different needs and expectations of and perspectives on the organisation (Hatch & Schultz, 2008:193), and each stakeholder or group has the power to affect the organisation, its operations, and therefore its performance and success in some way (Davies *et al.*, 2003:60; Friedman & Miles, 2006:11).

Crilly's (2011:519) categorisation of primary stakeholders, such as employees, investors, and suppliers who are involved in the production process, as well as secondary stakeholders, such as communities and regulators "… that grant legitimacy to corporate activity" is therefore not supported, since it is held that *all* stakeholders are involved in granting a for-profit organisation its legitimacy, its 'licence to operate', and in ensuring its performance and sustainability.

However, another categorisation of stakeholders which is supported in this study is to separate stakeholders into normative and derivative stakeholders. Normative stakeholders are those for whose benefit the organisation ought to be managed, and as such the organisation has a direct moral obligation to attend to their well-being. Typical normative stakeholders are those most frequently cited in stakeholder discussions such as financiers, employees, customers, suppliers and local communities. Normative legitimacy is created by the principle of stakeholder fairness and the obligations that arise from that (Phillips, 2003:10).

Conversely, derivative legitimacy is derived from these prior moral obligations and gets its force from the ability of certain groups to affect the well-being of the organisation and its normative stakeholders (Phillips, 2003:10). Derivative stakeholders are then those groups or individuals who can either harm or benefit the organisation, but to whom the organisation has no direct moral obligation as stakeholders. While the organisation is not managed for the benefit of derivative stakeholders, managers are obliged to account for them in their decision-making to the extent that they may influence the organisation or its normative stakeholders. This latter group might include such groups as competitors, activists, terrorists and the media (Phillips *et al*., 2003:489).

The view held in this study, based on stakeholder theory as originated in the work of Edward Freeman in 1984, is that an organisation has to manage its business in such a way that it achieves a balance among the interests of all its stakeholders (Friedman &

Miles, 2006:162). “In Freeman’s account, the very purpose of the firm is coordination of and joint service to its stakeholders.” (Marcoux, 2008).

7.4 ORGANISATIONAL ACTIONS AND RESPONSES

7.4.1 Nature of for-profit organisations

Formal business organisations are among the most powerful and dominant modern-day social entities, which control vast resources, cross national borders, and affect every human life (Laplume *et al*., 2008:1153; Mackey, 2009:73; Phillips, 2003:1). As such, it is held that any economic system or institution, especially the most important modem economic institution, the for-profit organisation, stands in need of normative justification. In this light, Donaldson (2008:175) argues: “We must eventually abandon justifying such institutions entirely in terms of back-to-front, patched-up theories, such as voluntary transactions and free market systems. We must face up to the questions, as we are beginning to, of ‘Why does the corporation exist?’ and ‘What are these institutions for?’ Corporations, larger and richer than most of us, are, if nothing else, artefacts. We made them; we created them; and we will make them differently in the future.”

This view is shared by Wood (2008:160), who states that institutions do not exist to serve their own purposes, but rather to serve the needs of societies and their peoples. “Business, like all other societal institutions (including the family, religion, education, government, etc.), serves vital functions but is never completely free to act as an independent entity.”

Wood (2008:160-161) also refers to the fact that all societies use social control mechanisms, including laws, regulations, economic sanctions, moral persuasion, interpersonal behaviours and the individual internalisation of rules and norms, to govern people, institutions and business organisations: “A company’s right to pollute a commons or mislabel goods or mislead shareholders ends short of causing harm to the relevant stakeholders. Society’s social control mechanisms help to ensure that such rights are not violated and, when they are, that fair compensation and retribution are forthcoming. Social control mechanisms help to ensure that institutions function effectively, and that common areas are preserved for the benefit of all. They are a necessary antidote to the toxic effects of the pursuit of economic self-interest."

7.4.2 Stakeholder theory from an organisational perspective

The long-term survival and success of a for-profit organisation is determined by its ability to establish and maintain relationships with its entire network of stakeholders (Freeman *et al.*, 2010:96; Friedman & Miles, 2006:163; Mackey, 2009:82-85). Responsible stakeholder treatment can help an organisation to avoid value-destroying outcomes associated with stakeholder dissatisfaction and actions, such as legal suits, adverse regulation, consumer boycotts, strikes, walkouts and bad press; and reduce expenses and strategic risks related to negative stakeholder-related outcomes (Freeman *et al.*, 2010:95-96; Friedman & Miles, 2006:234).

Excellent stakeholder relationships can also provide numerous positive opportunities and benefits to an organisation, as is discussed in greater detail in this study. In brief, this includes enhanced organisational flexibility, the formation of alliances, long-term contracts, joint ventures and increased economic value (Friedman & Miles, 2006:234). "A trustworthy reputation becomes a source of competitive advantage as the firm is presented with a larger number of better business opportunities from which to select." (Freeman *et al.,* 2010:96-97).

In line with Freeman's view of stakeholders as being either cooperative (providing opportunities) or competitive (posing threats), the question is what an organisation needs to do to gain its stakeholders' support. There are many different views in the literature on stakeholder theory, including that organisations can gain stakeholder support through charitable contributions, employee stock option programmes, organisational communication and reputation management (Laplume *et al*., 2008:1164).

This study, however, posits that one of the key strategies that an organisation can use to build an enduring relationship with its stakeholders, which in turn will produce their support, is to build trust and avoid treating its stakeholders opportunistically (Friedman & Miles, 2006:92). This is in line with the view of several scholars, such as Calton and

Lad; Heugens, Van den Bosch and Van Riel; Hosmer and Kiewitz; Husted; and Jones (Laplume *et al*., 2008:1165).

This study also contends that the manner in which an organisation can do this is to manage its identity accordingly (Friedland & Miles, 2009:52-53). Brickson (in Laplume *et al*., 2008:1165) proposes that an organisation's identity orientation (i.e. individualist, relational, or collectivist) determines the nature of its stakeholder relationships and she notes: "Although individualistic firms tend to maintain weak (instrumental) ties, relational firms tend to maintain strong (trust-based) ties, and collectivist firms tend to have cliquish (ideological) ties."

Based on the sociological systems theory that underpins this study's theoretical framework, this researcher supports the relational identity orientation. Consequently it is held that organisational identification is a mechanism that aligns individual stakeholders' interests and behaviours with interests and behaviours that benefit the organisation. Since stakeholders are more likely to identify with an organisation when their values converge with those of the organisation, an organisation's actions toward its stakeholders are likely to affect their perceptions of value congruence. "For instance, opportunistic behavior toward marginalized groups could compromise member identification if it is perceived as unjust or callous." (Laplume *et al*., 2008:1178).

According to Friedman and Miles (2006:149), stakeholder management "… is essentially stakeholder *relationship* [own emphasis] management as it is the relationship and not the actual stakeholder groups that are managed". Freeman *et al.* (2010:29) refer to this as a "… 'managing for stakeholders' approach".

This view is supported in this study, as this researcher contends that instead of trying to manage the diverse needs and demands of its different stakeholders, i.e. of managing multiple relationships (Owen, Swift, Humphrey & Bowerman, 2000:89), a for-profit organisation will be better served if it focuses first and foremost on managing itself, its own identity and character, to be able to deliver that which it promises its stakeholders to be. This suggests that it needs to focus on managing its authentic relationship with its stakeholders.

Corporate identity is regarded as the core of an organisation's corporate reputation. Since corporate reputation is seen as the assessment by stakeholders of how well the organisation manages its identity – that which it defines itself to be, its inherent character, which originates from its vision and its values (Friedman & Miles, 2006:52-53) – this study contends that an organisation should rather focus on managing *its accountability* to its stakeholders; on managing *its* relationship with its stakeholders, rather than trying to manage its stakeholders or multiple relationships (Owen *et al*., 2000:89).

It is then suggested that changing its strategic focus to manage its own accountability and demonstrate its trustworthiness to all its stakeholders, rather than trying to manage its different stakeholder relationships (Friedman & Miles, 2006:52-53; Owen *et al.*, 2000:89), will best enable a for-profit organisation to meet stakeholders' diverse expectations and resolve any possible conflicting interests (Bañon Gomis *et al*., 2011:185), whilst building a strong corporate reputation, one that will help it to earn the trust and support of its stakeholders (King, 2009:22) and so ensure its own sustainability.

Freeman *et al.* (2010:29) note that "… matters of ethics are routine when one takes a 'managing for stakeholders' approach'. In the words of one CEO: 'The only assets I manage go up and down the elevators every day'".

7.4.3 <u>Relevance of stakeholder theory to organisational performance</u>

The fundamental reality at the core of stakeholder theory is that economic value is created by people who voluntarily come together and cooperate in order to improve everyone's circumstances. Therefore profit should be regarded as the result of a well-managed organisation (and stakeholder theory as an idea about what it means to be well-managed), rather than the driver in the process of value creation or the purpose of the organisation (Freeman, 2008:165).

This implies that the leaders of a for-profit organisation should understand that the moral presuppositions of managing are about purpose and human relationships and they should see the importance of values and a relationship with their stakeholders as a critical part of their organisation's ongoing and long-term success and sustainability (Freeman *et al*., 2004:364; Mackey, 2009:80-82). "Profits and purpose are two different ideas, and collapsing them is like concluding from the fact that I need red blood cells to live, that the purpose of my life is to make red blood cells. There are lots of purposes for a business, and any resemblance among all of them is just what Wittgenstein called a 'family resemblance'." (Freeman, 2008:166).

Freeman (1984:33) proposes that the central issue of stakeholder management is "… pure and simple: survival", when he notes that without the support of its stakeholders a for-profit organisation cannot survive. He proposes using stakeholder analysis techniques to improve an organisation's prospects for survival by helping anticipate and/or prevent unforeseen problems and also improve access to vital resources (Laplume *et al*., 2008:1166).

Crilly (2011:519) holds that stakeholder management's greatest contribution may not lie with efficiency but with effectiveness through enhanced legitimacy; where legitimacy is known to produce stakeholder support and create environmental stability, which benefits organisations in the long term (Laplume *et al*., 2008:1168). "Stakeholder orientation, which denotes the stakeholder groups of concern to managers, is fundamental to strategy, since stakeholders are strategically significant actors who control resources essential for organisational survival and performance."

Furthermore, Crilly (2011:526) posits that stakeholder orientation is also important to corporate reputation, by noting that how managers and organisations allocate resources among the demands of competing stakeholders influences competitiveness and societal well-being. Crilly (2011:526) holds that, in contrast to prior studies suggesting that stakeholders do not distinguish between organisations' substantive and symbolic actions, stakeholders differ in their motivations and capacities to penetrate beyond organisations' symbolic actions – suggesting a mechanism linking organisations' allocation of resources to social stakeholders to their reputation and, conceivably, their long-term financial performance.

Stakeholder theory is held to be a managerial theory, since it directs how managers of a for-profit organisation should operate (Freeman *et al*., 2004:364). This is because stakeholder theory is expressed in two key questions relating to the core purpose of the organisation and the responsibility of the leaders of an organisation to stakeholders, respectively. The first question encourages leaders to articulate the shared sense of the *value* the organisation creates; that which brings its core stakeholders together. The second question directs leaders to articulate *how* they want to do business, specifically the kinds of relationships they want and need with their stakeholders to deliver on their organisation's purpose (Freeman *et al*., 2004:364).

Freeman (2008:164) holds that businesses and executives are responsible for the effects of their actions, that they are responsible precisely to those groups and individuals that they can affect or be affected by, such as customers, employees, suppliers, communities and financiers at a minimum, and other groups in so far as they affect these definitional stakeholders.

In the light of this Freeman (2008:164) proposes that business and ethics are integrated. "If business is on one side and ethics is on the other, then we'll have a gap that may come to be known as 'corporate social responsibility'. I want to suggest that we avoid this gap by having some integrated way to think about business and ethics, and the idea of responsibility seems to be a good way to start." (Freeman, 2008:164).

Freeman suggests that stakeholder theory makes the idea of corporate social responsibility superfluous, because stakeholders are defined widely and their concerns are integrated in the business processes (Freeman *et al*., 2010:60; Laplume *et al*., 2008:1168; Mackey, 2009:103). He also notes that the most troubling issue is the very nature of corporate social *responsibility*, as if the concept were needed to augment the study of business policy, and instead prefers the concept of corporate social *responsiveness*, which enables the link between social issues and the traditional areas of strategy and organisation (Freeman, 1984:39-40; Freeman *et al.*, 2010:41).

Several other researchers support and build on this idea by suggesting that stakeholder theory could help bring the abstract idea of 'society' closer to home for managers and scholars and provide a good starting point from which scholars can better understand how society grants or takes away corporate legitimacy (Bakan, 2004:140; Fombrun & Van Riel, 2003:20; Friedman & Miles, 2006:184; Mackey, 2009:76; Laplume *et al*., 2008:1168).

7.5 STAKEHOLDERS' ACTIONS, RESPONSES AND THEORY

7.5.1 Sources of stakeholders' power

Stakeholders differ with regard to their capacity to influence an organisation in an effort to change its behaviour. Greenwood and Van Buren lll (2010:432) consider three sources of power potentially available to organisational stakeholders, namely voting, political and economic power. According to Greenwood and Van Buren lll (2010:433), economic power is perhaps most significant with regard to a stakeholder's ability to influence a corporation.

This is in line with Frooman's resource dependence theory as a typology of stakeholder influence strategies. Stakeholders use direct strategies when the organisation depends on them for resources, and indirect strategies, such as working through an ally, when it does not. Moreover, stakeholders withhold resources when they are not dependent on the organisation and make the use of organisational resources conditional when they are. Since stakeholder influence is determined by the power and legitimacy of the stakeholders, indirect strategies, such as coalitions formed between stakeholder groups, may allow stakeholders to combine their power and legitimacy in a way that enhances their bargaining position (Friedman & Miles, 2006:191; Laplume *et al*., 2008:1162,1163).

In addition to economic, political and voting power, Freeman (1984:92-93) also emphasises stakeholders' social power, in that they can alter the position of the organisation in society, change the opinion of the public about the organisation, or allow or constrain what the organisation is able to do, with 'society's permission'.

Di Maria and Iwata (2007:22) observe that today's organisations no longer only have to contend with traditional stakeholders, but also with "… a billion global 'publishers' with the means to be heard by mass audiences and to organise quickly". In this study, this fourth source of power, namely social power, is held to be very relevant. The pervasive availability and use of modern-day communication technology and social media allow stakeholders an unprecedented ability to communicate with and mobilise others *en masse* to take action against a for-profit organisation whose behaviour is being viewed by its stakeholders as unethical or irresponsible, in order to put pressure on that organisation to change (Pharoah, 2003:48).

The literature provides a number of reasons to explain when stakeholders are most likely to mobilise and collaborate – either for or against an organisation – including goal commonality, shared economic interests, a common threat or enemy, common legal concerns or mandates, a history of having acted collectively in the past and greater internal network density (i.e. the group members communicate effectively). However, in line with the focus of this study, the proposal by Rowley and Moldoveanu (in Friedman & Miles, 2006:112) that a particular stakeholder group is more likely to mobilise, act as part of a collective and support if its members value the common identity conferred through their association with the organisation, is strongly supported.

7.5.2 Sources of stakeholders' support

In an attempt to illuminate the antecedents of stakeholder support for organisations, to examine when stakeholders would be most likely to support an organisation, Laplume *et al*. (2008:1164) highlight the following: that stakeholders are more likely to support firms that they perceive as older, more cognitively legitimate, well liked, reliable, accountable and strategically flexible. In particular, the proposal by Hosmer and Kiewitz that stakeholder support is most likely when stakeholders believe they have been fairly considered, fairly treated and fairly rewarded is supported in this study. The suggestion made by Laplume *et al*. (2008:1164), namely that organisations need to employ stakeholder management strategies with caution so as not to erode their credibility or, worse, alienate stakeholders, is also fully endorsed.

The literature on stakeholder theory provides anecdotal evidence of the role that emotional resonance plays, with previous research suggesting that positive emotions build individuals' personal resources and expand their cognitive thought processes. Therefore it is held that when stakeholders feel that they can trust an organisation, they are more willing to take risks in their relationships with the organisation (Friedman & Miles, 2006:92).

Laplume *et al*. (2008:1178) elucidate: "For instance, it appears reasonable to argue that employees may be more energized working for firms that have a purpose that goes beyond maximizing shareholder wealth. Likewise, it might be particularly useful to create win-win situations with marginalized stakeholders that permit and encourage positive deviance; that is, 'intentional behaviors that depart from the norms of a referent group in honorable ways'." While some possible outcomes of positive deviance include subjective well-being, long-term effectiveness and the evolution of organisational and common business norms, this study supports the suggestion by Laplume *et al*. (2008:1178) to see this linkage potentially extending to organisational sustainability.

7.6 THE IMPORTANCE OF ETHICS, VALUES AND TRUST

7.6.1 <u>Power and the principle of fairness</u>

The power that has been transferred to modern-day business institutions and other private organisations requires a close, explicit and reflective consideration of the morality of economic interactions and the organisations where these transactions take place (Phillips, 2003:2).

Differences in power between organisations and different stakeholders account for differences in outcomes experienced by stakeholders, and therefore Greenwood and Van Buren lll (2010:431) hold that "… stakeholder theory ought to identify power imbalances, trace through their effects, and offer proposals for their amelioration". Since stakeholders are potentially vulnerable and dependent on the organisation, stakeholder theory critically needs to address and account for issues of power, and explore and extend the developments within stakeholder theory in the areas of fairness, consent, and trust, for it to be explicitly and effectively normative in nature (Friedman & Miles, 2006:36; Greenwood & Van Buren lll, 2010:431).

Phillips (2003:9) holds that, beyond the financial reasons (and the moral rationale that underlies profitability), there are other moral obligations that arise in organisational contexts. He argues the principle of stakeholder fairness, which states that when stakeholders are engaged in a cooperative effort and the benefits of this cooperative scheme are accepted, obligations are created on the part of the organisation accepting the benefit. He also observes that these obligations are elaborated, defended and compared with other forms of obligation generation such as actual and implied consent.

"The principle of stakeholder fairness only provides for the existence of obligations among stakeholders; the content of the obligations must be filled out within the particular contexts of organizational interaction. In other words, that there are obligations and who the parties to these obligations are is determined using the principle of stakeholder fairness. The content of these obligations (i.e. what the parties are obligated to do or refrain from doing) is established by the norms of the particular organization and its stakeholders." (Phillips, 2003:9).

7.6.2 Ethics and values form the core of stakeholder theory

In addition to Donaldson and Preston's view that the normative element forms the core of stakeholder theory, Laplume *et al*. (2008:1169) – based on their extensive review of the literature on stakeholder theory – note that many normative frameworks have been used for stakeholder theory, ranging from two of the most frequently applied normative frameworks, namely feminist ethics and principles of fair play, to many other normative frameworks, including the common good framework as posited by such as Argandoña, critical theory, deontology, Aristotelian ethics, Kantian ethics, organisational justice and libertarianism, as posited by Freeman and Phillips. These authors also note that the deluge of articles emphasising an ethical rationale for stakeholder theory has been generally well received (Laplume *et al*., 2008:1169).

According to Laplume *et al*. (2008:1180), their review of stakeholder theory points to its growing acceptance in the light of the lack of discourse on issues related to ethics and morality in the field of organisational studies. These authors also observe that the concomitant increase in corporate scandals, reports on unethical organisational behaviour and demands for socially responsible organisations have made scholars and practitioners alike rethink whether current frames of reference are sufficient to address substantive ethical and moral problems in the world of business.

Stakeholder theory's rise in prominence is evidenced by the growing acceptance of the theory across functional disciplines and explained by its relevance in addressing practical concerns of unethical and irresponsible behaviour by some organisations. Laplume *et al*. (2008:1180) note that they have found "… an emerging consensus on the need to be cognizant of stakeholders, for both strategic and moral reasons". These authors also notice the social construction of ethics and a normative core in the theory, something that transcends Freeman's seminal work.

According to Freeman, Wicks and Parmar (2004:364), stakeholder theory "… begins with the assumption that values are necessary and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose."

Freeman (1984:96) notes that while ethics is a necessary ingredient of the analysis of 'what the organisation stands for', it is not sufficient in itself. Consequently, he also highlights the importance of an organisation's intrinsic values (values that are good in and of themselves and that should be pursued for their own account and worth) and instrumental values (which are means to intrinsic values). While Freeman (1984:97) notes the importance of leaders' role to be able to articulate the most important values of the organisation, he emphasises that it is critical that there should be a high degree of congruence between their personal values and the values of the organisation.

If ethics is to become an integral part of business conduct, it must be knit into the very fabric of organisational life (Phillips, 2003:2). According to Freeman *et al*. (2010:28), creating as much value as possible for stakeholders, without resorting to tradeoffs, is more easily accomplished when an organisation has a sense of purpose that speaks to the hearts and minds of its stakeholders.

7.6.3 <u>The link with trustworthiness and trust</u>

Trust-based cooperative relationships are distinguished by their moral component. Based on the earlier espousement of the principle of fairness, it is apparent that cooperative relationships between organisations and legitimate stakeholders are morally based. This study contends that being trustworthy as an organisation is the most direct way of discharging that obligation to its stakeholders.

An organisation displays its trustworthiness by consistently and ethically managing its accountability to its stakeholders – by being and delivering what it has promised to them. Based on this, its stakeholders will in turn extend their trust – their support – to the organisation, which will assist the organisation to perform and assure its own economic sustainability in the longer term. Although there is empirical support for the contention that improving stakeholder relations creates organisational performance (Laplume *et al*., 2008:1176), these authors hold that there is also a need to examine when and how trust spills over from one stakeholder relationship to another, particularly with regard to interest and identity as key variables for stakeholder mobilisation, and how these variables interact to affect attitudes, intentions and actions.

It is posited that this study, with its focus on how an organisation as a system can ensure its own long-term economic sustainability by building an enduring corporate reputation on the foundation of its own trustworthy, ethical identity in order to enhance its stakeholders' trust and support, makes a contribution to the literature in this regard.

7.7 CONCLUSION: FOUNDATION OF THE STAKEHOLDER CONSTRUCT

This discussion of stakeholder theory provides a pertinent link between systems theory and the concept of corporate trust. Based on the key tenet of stakeholder theory, the key role that stakeholders play in influencing a for-profit organisation's long-term economic success and viability is contextualised.

Modern-day for-profit organisations need to consider and implement stakeholder theory, because the positive and negative impact that stakeholders have (or can have) on an organisation's performance and sustainability makes it an undeniably critical management theory. The growing importance of values and ethics in this regard highlights the key tenet of this study – that stakeholders' trust in an organisation is a prerequisite for its continued success and sustainability, and that an organisation can only earn that trust if it becomes a trustworthy, ethical organisation.

This presents a departure from the traditional view that an organisation needs to manage its stakeholders or multiple relationships with stakeholders, towards a view that primarily focuses rather on managing itself – its accountability to its stakeholders – and therefore on managing its own relationship with its stakeholders.

8 CONCLUSION: TRUST A PREREQUISITE FOR SUSTAINABLE SYSTEMIC BEHAVIOUR

Systems theory, and particularly sociological systems theory, emphasises the importance of maintaining the relationships between the various elements of the system. A for-profit organisation is a social entity that is dependent on its social environment – its stakeholders – to continue to operate and grow its economic performance. Trust, as a sociological event, fulfils an important function in any relationship, namely to reduce complexity (Bachmann, 2006:394; Luhmann, 1979:8). As with personal trust in a dyadic relationship, the presence of trust allows the interaction between the two actors to be simpler and more effective. However, while the likelihood of possibilities for beneficial action increases when trust is present, trust by itself does not constitute anything, and it is rather the trustworthiness of the person who is trusted that allows for the reduction of complexity. "That is to say, again, the focal problem is trustworthiness, not trust." (Hardin, 2002:30).

Since a for-profit organisation is regarded as a complex social system (Kramer, 1999:570), these notions can be extended to the role that corporate trust plays in the organisation. The presence of trust in a for-profit organisation allows for relationships and interactions on a simple and confident basis, whereas the absence of trust can pose such complexity of contingent outcomes that it could lead to paralysis (Lewis & Weigert, 2008:160).

The use of trust is regarded as a key strategy that can reduce the complexity and uncertainty brought about by the interaction and interdependence in the relationships within a for-profit organisation and with its environment (Luhmann, 1979:8). Trust can also be used to help the leadership create and instil a homogenous identity in the organisation, one that is based on ethics and trustworthy behaviour, as well as values that guide the decisions and actions of everyone in the for-profit organisation to do the right thing (Cartwright & Craig, 2006:748; Marsden & Andriof, 1998:338), and which will then lead to a corporate identity and culture of sustainability and trustworthiness (Pirson & Malhotra, 2008:10; Pirson, 2009:8; Vanneste *et al*., 2011:23).

This study holds that a for-profit organisation's reputation for trustworthiness is formed as a result of the interactions between the organisation, its representatives and its external stakeholders (Williamson, 1993:207), as well as its reaction to the feedback from its environment. It is posited that the interdependent actions of the internal and external actors who form part of the system and enact the various activities within the for-profit organisation, as well as the activities and behaviour of actors or stakeholders outside the organisation (system), lead to a constant development of the system or for-profit organisation itself (Coleman, 1986:1312). This infers that the goal-oriented actions of the various internal and external actors combine to bring about system-level behaviour. Concomitantly, these goal-oriented actions are also shaped by constraints that result from the behaviour of the system (Coleman, 1986:1312; Selznick, 1948:25).

Through the interrelationships among the various components, certain actions are facilitated and reinforced, and if these are repeated regularly over time, institutionalised patterns of thinking and behaviour are established. This in turn changes the for-profit organisation itself (Argandoña, 2008:441; Gillespie & Dietz, 2009:130; Scott, 2008:442). The process by which the different dimensions influence the degree of overall trust in a for-profit organisation is therefore indicative of systemic behaviour.

This process describes how corporate trust can be created and strengthened, how a for-profit organisation can become trustworthy by grounding its corporate identity on core values that are congruent with the values of its stakeholders (Pirson & Malhotra, 2008:10; Vanneste *et al*., 2011:23), and can be shown to be a trustworthy, responsible corporate citizen to all its stakeholders (King, 2009:22).

This study contends that a deliberate and focused approach to manage this process will ensure greater consistency and predictability in the trustworthy behaviour of a for-profit organisation, which will lead to increased integrity in how the organisation presents its identity to its stakeholders (Pirson & Malhotra, 2008:23) and therefore to an improved corporate reputation, and subsequently to increased stakeholder trust in the for-profit organisation.

It is further posited that the reputation for being trustworthy and the increased trust will lead to more supportive stakeholder behaviour, and that this sustainable systemic behaviour will in turn enable and safeguard the for-profit organisation's long-term economic viability and success in a sustainable manner.

CHAPTER 3
SUSTAINABILITY WITHIN A CORPORATE ENVIRONMENT

"Sustainability is the primary moral and economic imperative of the 21st century."
– Mervyn E.King[1]

1 INTRODUCTION: FUNDAMENTAL SHIFT REQUIRED IN BUSINESS

The description of sustainability as the primary moral and economic imperative of the twenty-first century in King lll (2009:9) is based on the fact that it is regarded as one of the most important sources of both opportunities and risks for businesses today. As King (2009:9) notes: "Nature, society, and business are interconnected in complex ways that should be understood by decision-makers" (King, 2009:9). King further observes that the current incremental changes towards sustainability are insufficient, and he emphasises that a *fundamental* shift is required in the way organisations and directors act and organise themselves (King, 2009:9).

According to Porter and Kramer (2006:81), the principle of sustainability "… appeals to enlightened self-interest, often invoking the so-called triple bottom line of economic, social, and environmental performance". This study extends this view of corporate sustainability. Within the macro-theoretical framework of this study, namely systems theory and particularly the sociological systems theory, the concept of sustainability is held to be based on the quality of the relationships between the various components of the organisation as a system as well as its relationship with its environment. As a social system, a for-profit organisation is then dependent on the support of its stakeholders.

In today's world, an enduring and sustainable organisation is one where profit is no longer the sole end, but rather an end that operates in such a way that it ensures that returns will continue (Haque, 2010; Jones, 2007:197). "Great companies work to make money, of course, but in their choices of how to do so, they think about building enduring institutions. They invest in the future while being aware of the need to build people and society." (Moss Kanter, 2011:68).

[1] *Renowned South African expert on corporate governance and King Committee Chairman (King, 2009:12).*

Corporate sustainability then means an organisation should operate in ways that secure long-term economic performance by avoiding short-term behaviour that is socially detrimental or environmentally wasteful – it should balance public interest with financial returns (Moss Kanter, 2011:68; Porter & Kramer, 2006:81). It is held that the closer a social issue is tied to the business of an organisation, the greater the opportunity will be for it to leverage its resources and benefit society (Porter & Kramer, 2006:88).

This researcher acknowledges and agrees with the contention that capitalism in and of itself is an essential cornerstone of a healthy, free and sustainable society. As Palmer (2011:10) observes, the freedom to create wealth is the only means to the elimination of poverty: "Wealth has causes, but poverty does not; poverty is what results if wealth production does not take place, whereas wealth is not what results if poverty production does not take place." However, this view of capitalism is based on an understanding of capitalism as a system of cultural, spiritual and ethical values (Haque, 2010). In line with scholars such as David Schwab, Elinor Ostrom and John Mackey, this study accepts that, in order to remain sustainable, the free markets rest firmly on ethical norms and rules that are 'trust-enhancing' (Palmer, 2011:1-2).

With the focus globally being placed on the issue of sustainability, in particular on corporate ethics, responsible corporate citizenship and sustainable business practices (Haque, 2010; King, 2009:9; Marsden & Andriof, 1998:336; Mishra, 1996:282), there is an increasing need to understand trust in a corporate context, what it is, how it is developed and how it can be used to facilitate the fundamental shift that King Ill is referring to. It is also important to note the impact when an organisation violates the trust of its stakeholders.

This view is in line with current literature on trust and reputation. Nooteboom (2002:4) highlights the importance of trust in a corporate context and describes trust as "… one of several means, but an indispensable one, for conducting economic relations". Casson and Della Giusta (2006:332) argue that trust does not only improve the general quality of life, it also improves productivity and economic performance. Jones (2007:15) takes this further, and notes that an organisation's ability to receive a positive evaluation from its stakeholders is important for the organisation's survival. Bandsuch *et al*. (2008:120) agree, but also expand on this view, when they note that trust is an invaluable asset that impacts and sustains not only an individual for-profit organisation, "… but arguably the entire free market system".

Economic success and sustainability is dependent on constructive interactions between people and organisations and typically requires the combined efforts and contributions of a wide range of groups and individuals, including shareholders, employees and managers (Haque, 2010; Jones, 2007:15; Marsden & Andriof, 1998:332; Stout & Blair, 2001:28).

Since human behaviour is often difficult to predict, relationships – also economic relationships – have to be built on trust (Palmer, 2011:1-2). In today's society, people expect organisations to behave in a socially responsible manner – they see organisations as being morally bound to behave in a way that is good for society and to do so in a sustainable way (Haque, 2010; Hosmer, 1995:394; King, 2009:9; Mishra, 1996:283; Nooteboom, 2002:6; Swift, 2001:20).

Indeed, Fukuyama (1995:150) argues that while modern organisations are a necessary condition for modern prosperity and the social well-being that is related to this, they are not a sufficient condition unless they are combined with certain traditional social and ethical habits in order to work properly.

Jones (2007:20) endorses this view when he notes that there is a clear link between ethics and organisational effectiveness, particularly when one keeps in mind that the environment in which an organisation operates is a principal source of uncertainty.

This has increased the need for board members and directors to understand what their legal, fiduciary and moral duties comprise. Failure to perform their legislative and fiduciary duties properly may render directors personally liable (Jones, 2007:36; Paine, 1994:106), but it is held that failure to perform their moral duties may put the sustainable future of the organisation at risk if stakeholders lose their trust in the organisation, similar to what happened at Enron, Arthur Andersen and WorldCom (Bakan, 2004:23,57-59; Jones, 2007:32).

Therefore it is held that a sound theoretical knowledge base of corporate trust, including how to operationalise, manage and measure it, should be readily available to assist directors in South Africa.

2 OUTLINE OF CHAPTER CONTENT

A working definition of corporate sustainability as conceptualised by this researcher for the purpose of this study is first provided. The discussion in the rest of the chapter aims to clarify the operationalisation of this concept in this study.

As a point of departure, an overview of King lll is undertaken in order to outline the underlying philosophy of this corporate governance framework, and position the role and importance of corporate trust – also in relation to corporate reputation – within the context of corporate sustainability in South Africa. A brief overview of responsible corporate citizenship and its relevance to corporate trust is then provided. This is followed by an overview of the development of the sustainability concept and the corporate sustainability construct, in order to demonstrate that this concept is increasingly being understood as a much broader concept than the more narrowly defined environmental view that is generally held.

In line with one of the secondary objectives of this study, namely to investigate the nature and meaning of the concept of sustainability in relation to corporate trust, this chapter then focuses on examining the different organisational approaches towards sustainability based on the governance framework and stakeholder focus. Based on this, a new framework of corporate sustainability, with ethics as its underlying rationality, is proposed. By conceptualising sustainability as a broader social principle, the concept of corporate trust is then firmly positioned within the corporate sustainability framework.

3 DEFINING CORPORATE SUSTAINABILITY

In order to provide a working definition of corporate sustainability for the purpose of this study, the definition of corporate sustainability, as posited by Bañon Gomis *et al*. (2011:175), has been freely adapted and added to.

This study defines corporate sustainability as *a for-profit organisation's ability to do, and continue to do, business and achieve its economic success – its profit and growth – in a manner that is maintainable, viable and wholly morally justifiable, now and in the future, since it has adopted ethics as its core principle to guide conduct in the organisation.* Corporate sustainability is then related to an organisation's ability to conduct its present business operations in such a way that it does not put the likelihood of its own sustained existence and capacity to meet its future needs at risk (King, 2009; Moss Kanter, 2011).

This researcher holds that a for-profit organisation can do this by earning the trust and support of its stakeholders through its consistent ethical and trustworthy behaviour, founded on its value-based identity, as well as a reputation as a responsible corporate citizen (Bakan, 2004: 140-149; Bañon Gomis *et al*., 2011:173; Friedman & Miles, 2006:52-53; Linthicum *et al*., 2010:163; Mackey, 2009:103-110; Pirson & Malhotra, 2008:10).

Achieving corporate sustainability is seen to be dependent on a moral way of acting, and then in a consistent manner, in which the for-profit organisation is resolute to operate in an ethical and trustworthy manner and engage in a dialogical relationship with all of its stakeholders, in order to earn its stakeholders' trust to maximise opportunities for its own economic success and sustainability. Furthermore, the organisation will build its overall reputation as a responsible corporate citizen that fosters development and avoids causing any detrimental effects on its environmental, social and economic domains, since it accepts that the care and preservation of all three domains are conducive to a flourishing life for all (Bañon Gomis *et al*., 2011:175).

4 AN OVERVIEW OF KING lll

4.1 INTRODUCTION

The promulgation of the new Companies Act (No. 71 of 2008) in South Africa and the publication of King lll in 2009 by the Institute of Directors in Southern Africa highlight the importance of directing and guiding the behaviour of for-profit organisations in order to ensure sustainable economic outcomes for all. This overview includes an introduction to the philosophy of King lll, followed by a discussion of corporate governance, the nature and meaning of fiduciary duty, the inclusive stakeholder approach, the requirement of an ethical approach in business and the need to earn a good reputation.

4.1.1 Philosophy of King lll

The philosophy of King lll centres on effective leadership and the key challenge to ensure the sustainability of their organisations through responsible corporate citizenship (King, 2009:10-11).

Sustainability considerations are embedded in the South African Constitution, which is the "… most basic social contract that South Africans have entered into" (King, 2009:11). As a juristic corporate citizen, a for-profit organisation in South Africa should therefore operate in a sustainable manner and fulfil its responsibilities, as imposed by the Constitution, for the realisation of the most fundamental rights. It is posited that, as a corporate citizen of the society in which it does business, an organisation has certain rights, but also legal and moral obligations in respect of its economic, social and natural environments (King, 2009:12,117).

King lll defines corporate governance as *the organisation's "… practical expression of ethical standards"* (King, 2009:21). The King lll governance framework is therefore based on an 'apply or explain' principle, which differs from the 'comply or else' governance framework used for example in the USA. The difference here lies in the outcome of non-compliance with or adherence to governance principles. In the latter framework, non-compliance leads to legal action. In the former (the King lll 'apply or explain' framework), voluntary compliance with the corporate governance framework is supported (since it is believed to be based on an ethical foundation), except in those instances where certain governance issues have been legislated (King, 2009:7).

Some of the criticisms directed at the 'comply or else' governance framework set by the Sarbanes-Oxley Act of 2002 in the USA relate to the excessive costs that this legislation is causing companies, with little demonstrable benefits, and to the fact that it "… has made management and boards averse to taking the kind of intelligent risks that are necessary to create value for shareholders" (Eccles *et al*., 2006:353).

Furthermore, it is held that, "… even in the best cases, legal compliance is unlikely to unleash much moral imagination or commitment" (Paine, 1994:108). As such, it is posited that a compliance framework does not offer opportunity to inspire excellence, distinction or exemplary behaviour. In this regard, Paine (1994:109) observes: "Those managers who define ethics as legal compliance are implicitly endorsing a code of moral mediocrity for their organizations."

Due to its voluntary nature, King lll is regarded to be a less cumbersome, more cost-effective and more beneficial governance framework. The philosophy underpinning this governance framework is that it allows the directors and leadership of an organisation the flexibility and scope to make decisions that they consider to be in the best interests of the organisation (King, 2009:9), using an ethical framework as a basis for their decision-making (King, 2009:21). In the instance that a decision is made not to apply a governance recommendation or principle, directors need to explain how and why it was not applied. The reasons given by the directors and the executive leadership for not applying a specific governance recommendation or principle then result in compliance, provided those reasons are accepted by the organisation's stakeholders.

4.1.2 Corporate governance

In general, corporate governance is defined as *the framework of rules and practices that are used to guide the manner in which a for-profit organisation is managed*. It therefore concerns the systems and processes of management which the board of directors uses to govern the organisation's behaviour and conduct, to ensure responsibility, accountability, fairness and transparency in the organisation's relationship with all its stakeholders (Bandsuch *et al*., 2008:101; Bucklund *et al*., 2012; King, 2009:10,13).

A corporate governance framework consists of explicit and implicit contracts between the organisation and its relevant stakeholders. These contracts encompass the distribution of responsibilities, rights and rewards; procedures for reconciling any conflicting interests of stakeholders which may arise, in accordance with their duties, privileges and roles; as well as procedures for proper supervision and control, for instance using the flow of information as a system of checks and balances (Luthra, 2012). The King lll definition of corporate governance as *the organisation's practical expression of ethical standards* (King, 2009:21) is used as the central point of departure to conceptualise corporate governance in this study.

It is then held in this study that a for-profit organisation that wants to ensure its own sustainability will base its corporate governance framework on an ethical foundation, and its leadership, characterised by ethical values and adherence to its moral duties (Bandsuch *et al*., 2008:100), will focus on directing the organisation's strategies and operations with a view to achieving sustainable economic, social and environmental performance to the benefit of multiple stakeholders (King, 2009:10).

As such, this study expands the perspective of corporate governance to include a view that relies on a proactive ethical stance model, which recognises an organisation's responsibility to multiple stakeholders, as well as its role as a shaper of society (Cartwright & Craig, 2006:743; Jones, 2007:197).

4.1.3 <u>The nature and meaning of fiduciary duty</u>

Since the philosophy of King lll centres on the central role of the leadership of a for-profit organisation and their key challenge to ensure the sustainability of their organisations through responsible corporate citizenship (King, 2009:10-11), it is prudent to delineate the leaders that King lll is referring to, and expand on their role, before the concept of responsible corporate citizenship is discussed.

A board of directors in a for-profit organisation fulfils an essential economic function of the public corporation, in that "… it provides a vehicle through which shareholders, executives, rank-and-file employees, and others who invest team specific resources can, for their own benefit, protect and promote such investments by jointly relinquishing control over those resources and their joint enterprise to a third party – a board of directors – charged with representing the team's interests and allocating rewards among team members" (Stout & Blair, 2001:30). The goal of having non-executive directors (or directors who are not part of the organisation's executive management) is to bring objectivity to an organisation's decision-making and balance the power of executive directors (Jones, 2007:36).

The board of directors are therefore solely accountable neither to shareholders nor to the CEO and the executive leadership of the organisation. Instead, directors as high-ranking leaders who are largely insulated from the direct command and control of either shareholders or other corporate stakeholders fulfil an important mediating role, since they "… enjoy a substantial range of legal discretion to use the firm's assets in ways neither shareholders nor managers would necessarily choose, were they in charge" (Stout & Blair, 2001:30-31).

Directors of a for-profit organisation therefore have an obligation to the organisation, its shareholders and society at large to fulfil their fiduciary duty and manage the business with the skill, diligence and care of a reasonably prudent person (Stout & Blair, 2001:71). Since the hallmark of a fiduciary relationship is the legal requirement that the fiduciary should act for the exclusive benefit of his beneficiary even when, and *especially* when, the beneficiary cannot monitor or control the fiduciary's behaviour, the keystone of the fiduciary relationship lies in the directors' commitment to abandon self-interest and promote the for-profit organisation's welfare instead of their own.

From a legal perspective it is held that a trustee bound by fiduciary ties, such as a director of a for-profit organisation, is held to something stricter than the morals of the market place. "Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior." (Stout & Blair, 2001:62-63).

Jones (2007:42) observes that a very important corporate governance mechanism, one that has become increasingly significant for a board of directors to emphasise after the recent spate of corporate scandals, is to insist that the executive management of an organisation follow ethical guidelines in their decision-making. Jones defines ethics here as *"… the inner-guiding moral principles, values and beliefs that people use to analyse or interpret a situation and then decide what is the 'right' or appropriate way to behave".*

At the same time, ethics also indicates what inappropriate behaviour is and how a person should behave to avoid harming another person.

Fiduciary duty then gains its momentum primarily at the level of norms rather than the level of rules (Stout & Blair, 2001:77). Mitchell (2001:125-126) agrees when he remarks: “Ideally, and in its original design, fiduciary obligation is self-enforcing. It is one of the few instances in our law where we levy a moral injunction against an aspirational standard of conduct that depends for its efficacy on the good faith of the actor.”

It is within this framework that King lll declares the board and directors to be responsible for fostering and building trust in their organisation, as part of their fundamental responsibility to ensure the sustainability of the organisation (King, 2009:12). A fiduciary obligation is therefore about trust and trustworthiness (Friedman & Miles, 2006:1).

Mitchell (2001:125) asserts: “Fiduciary duty is, famously, about trust.” He also observes that it is not possible to understand fiduciary duty without understanding trust, and that “… to be effective, fiduciary duty must rely on the willingness of business actors to trust and be trusted” (Mitchell, 2001:108).

This sets the stage for understanding the role and importance of trust in a for-profit organisation. The distinctiveness of trust suggests that the essence of a fiduciary relationship is the legal expectation that the directors as fiduciaries will adopt the preference to regard the interests of others, which is the hallmark of trustworthy behaviour. It is due to this reliance on the fiduciary’s good faith and trustworthiness that King lll declares that the need to create a trustworthy organisation should start with the board of directors, as the leaders of a for-profit organisation, and in fulfilment of their fiduciary duty (King, 2009:10-11).

The principal function of this fiduciary concept is for the board of directors to trigger trusting behaviour in the for-profit organisation by signalling that the social context calls for trust. Moreover, the law encourages fiduciaries to do this not only or even primarily by threatening punishment, but “… by framing the relationship between the fiduciaries and their beneficiaries as one that calls for a psychological commitment to trustworthy, other-regarding behavior" (Stout & Blair, 2001:12-13).

The bottom line is that opportunistic behaviour of one kind or another is an unavoidable problem associated with doing business in the corporate form. Indeed, it is held to be the paramount problem, and the focus of the vast bulk of modern literature on corporate law and policy. That is why this study holds that for-profit organisations that promote trust in relationships among investors, employees and other stakeholders can reduce and in some cases avoid much of the cost associated with policing against opportunism (Mishra, 1996:282; Stout & Blair, 2001:32).

The consequence is that a for-profit organisation that successfully encourages trust among their stakeholders can enjoy an evolutionary advantage over organisations that do not. Stout and Blair (2001:32) note: "Economic analysis itself suggests that a corporate capacity to promote trust behavior may often be not just important to business success, but essential." This view of the fiduciary duty of the board of directors of a for-profit organisation also underlines the rationale and importance of the inclusive stakeholder approach, as advanced by King lll (2009:10,13,21,100,103), which will be discussed next.

4.1.4 <u>Inclusive stakeholder approach</u>

Building on the definition of stakeholders presented in the previous chapter, which describes a stakeholder as someone who can either assist or hinder an organisation, an overview of the inclusive stakeholder approach and its link with the sustainability of a for-profit organisation, as maintained by King lll and other literature, is presented.

- ***Organisational dependency on stakeholders' approval to operate***

According to King lll (2009:21), an organisation earns the necessary approval, "… its licence to operate", from its stakeholders. This is in line with the view held by the father of stakeholder theory, R. Edward Freeman, who notes that organisations operate via social contracts that guarantee certain rights to those who have an interest or a stake in their activities or outcomes (Hatch & Schultz, 2008:151; Swift, 2001:17). According to

Fombrun and Foss (2004:288), this social contract refers to the importance of the bond linking companies to their stakeholders – a bond that gives companies their 'licence to operate'.

This study subscribes to the standard perspectives on corporate governance as set out in the prescription of the Organisation for Economic Co-operation and Development (OECD), which deals with the responsible and fair treatment of stakeholders (Cartwright & Craig, 2006:742). However, this view is expanded to include an understanding that the phrases 'social contract' and 'licence to operate' are not "… simply regarded as descriptors of a positive social positioning, but are rather seen to be vital to long-term business sustainability" (Fombrun & Foss, 2004:288), since a for-profit organisation that violates its social contract, particularly in ethical respects, will lose the support and trust of its stakeholders, and therefore its licence to operate (Jones, 2007:52).

According to King lll (King, 2009:9), the ultimate compliance officer in an organisation is in reality the stakeholders of the organisation. This is because stakeholders can choose to withdraw their support and cooperation if they feel that a for-profit organisation has acted irresponsibly or unethically (Jones, 2007:20). This withdrawal of support can include actions such as talented employees leaving the organisation; customers switching to competitors; journalists focusing on negative media coverage; and shareholders changing their votes, selling their shares or suing for breach of fiduciary duty (Jones, 2007:28; Stout & Blair, 2001:83).

King lll accentuates that a board of directors that wants to ensure the long-term economic sustainability of its organisation should take the legitimate interests and expectations of *all* of the for-profit organisation's stakeholders into account (King, 2009:13) in every facet of conducting its business. Fombrun and Van Riel (2004:220-221) also highlight the danger of prioritising certain stakeholder groups. They hold that it creates an artificial sense of order and ignores the vital point that corporate reputations are vulnerable to attack from all stakeholder groups, whether individuals or groups.

Freeman's stakeholder theory, in its simplest form, states that organisations that attend to the demands of all stakeholders will outperform those organisations that focus only on certain of their key stakeholders, to the exclusion of the others (Hatch & Schultz, 2008:151; Jones, 2007:198). A for-profit organisation is therefore not just answerable or responsible to its shareholders (Bandsuch *et al*., 2008:102-103), but to its manifold stakeholders, particularly in ethical respects (Jones, 2007:52). Due to the organisation's dependency on multiple stakeholders' approval of the way it operates, King III subscribes to the inclusive stakeholder governance approach, rather than to the enlightened shareholder approach (King, 2009:13), which is discussed next.

- ***Inclusive stakeholder approach versus enlightened shareholder approach***

While both the inclusive stakeholder and enlightened shareholder approaches acknowledge that an organisation has multiple stakeholders, the difference between the two approaches lies in the way in which the legitimate interests and expectations of all the stakeholders are handled (King, 2009:13).

With the enlightened shareholder approach, the legitimate interests and expectations of all stakeholders are only considered when it is regarded to be in the interests of the organisation's shareholders to do so, and the legitimate interests of all stakeholders are really only used as an instrument to serve the interests of the shareholders (King, 2009:13).

With the inclusive stakeholder approach, on the other hand, the legitimate interests of all stakeholders are considered since it is believed to be to the organisation's best advantage to do so, interpreted within the bounds of the organisation as a sustainable business and responsible corporate citizen (King, 2009:13). The inclusive stakeholder approach therefore recognises that multiple stakeholders can affect the organisation in the achievement of its long-term strategy and economic sustainability (King, 2009:100-101). The inclusive stakeholder approach essentially redefines economic success in that it focuses on producing lasting positive effects for all stakeholders.

4.1.5 <u>A good reputation needed to earn stakeholders' trust</u>

With the inclusive stakeholder approach, based on an ethical foundation, King III places renewed focus on the importance of stakeholders and their perceptions and opinions of a for-profit organisation (King, 2009:13). This brings the significance of corporate reputation and the levels of trust that stakeholders have in the organisation to the fore.

King lll emphasises the key responsibilities of the Board to protect the organisation's corporate reputation, its identity and that which its stakeholders know it to stand for, and to foster and strengthen the levels of trust between the organisation and all of its internal and external stakeholders (King, 2009:21, Pirson & Malhotra, 2008:10). Directors are therefore required to ensure that the leaders of the organisation are sensitive to the impact their operations and decisions have on all their stakeholders. This means that directors should ensure that the executive leadership of the for-profit organisation give direct, not incidental, consideration to the interests and expectations of all their stakeholders.

This in turn also requires that the Board should appreciate how stakeholder perceptions affect the for-profit organisation's reputation (Jones, 2007:51). King (2009:100) notes that there is a growing awareness of just how important the contribution of corporate reputation is to the economic value of a for-profit organisation. This study presumes that stakeholders are able to infer the for-profit organisation's value-set from its actions and behaviour and are capable of acting detrimentally towards the organisation should they believe that ethical values or standards have been violated, that the organisation has behaved as an irresponsible corporate citizen.

The fundamental concept posited by this study is that it is in the economic and long-term interest of a for-profit organisation to intentionally foster and build stakeholder trust, by becoming an ethical, trustworthy organisation and establishing its reputation as a responsible corporate citizen on this basis (Pirson & Malhotra, 2008:10; Vanneste *et al*., 2011:23), in other words to become *worthy* of the trust its stakeholders place in it.

Stakeholders cannot trust an organisation that they do not know or are not familiar with. The role of corporate reputation is to make the organisation's identity and character known to its stakeholders, so that they are familiar with the organisation, who it is and what it stands for (Luhmann, 1979:19: Pirson, 2009:8; Vanneste *et al*., 2011:23).

An organisation that behaves in accordance with the values that it professes to uphold, that is who consistently acts in alignment with the image it presents to its stakeholders, will be regarded as a trustworthy organisation (Pirson & Malhotra, 2008:10). Based on their positive assessment of the organisation, stakeholders develop a positive expectation about the organisation. This development of their trust then influences their relationship and likelihood of future behaviour patterns regarding the organisation.

The presence or absence of trust changes the way people decide about important issues. Trust, defined as *an attitude that allows for risk-taking decisions* (Einwiller & Will, 2001:6; Luhmann, 2000:103) is therefore important in a for-profit organisation, if it wants its various stakeholders to decide to support the organisation, either directly (by investing in, working for, buying from) or indirectly (not acting against). This is in line with Luhmann's view that any system, be it economic, legal, or political, requires trust as an input condition: "Without trust it cannot stimulate supportive activities in situations of uncertainty or risk." (Luhmann, 2000:103).

While this study holds that the presence of trust is vital in any for-profit organisation, it is believed to be of particular importance to build trust in a for-profit *service* organisation. The nature of the service sector is unique, in that the services being offered are characterised by qualities such as intangibility, which prevents a client to precisely value the quality of the service before acquiring it; inseparability, which refers the fact that the services are produced and consumed at the time; and heterogeneity, meaning that the quality of the services is variable, since it depends on who provides the service, when and where (Flavián, Guinalíu & Torres, 2005:450). It is believed that the trust that a stakeholder has in, for example a financial service for-profit organisation, will play an even more significant role in order to overcome the challenges inherent in these changeable qualities of a service.

It is then envisaged that the perceptions of stakeholders regarding the behaviour of a for-profit organisation, as well as the levels of trust they have in the ethical conduct and trustworthiness of a for-profit organisation, should be measured. This forms the basis of the proposition in the study to develop a Corporate Trust Index measurement subsequent to this study.

5 CORPORATE CITIZENSHIP AND RESPONSIBILITY

5.1 CONCEPT OF A CORPORATE CITIZEN

The concept of corporate citizenship in this study emanates from the fact that an organisation is regarded as a person, as a social actor, in its own right (Greenwood & Van Buren lll, 2010: 429; King, 2009:11,12; King *et al*., 2010:290; Kramer, 2010:82; Marsden & Andriof, 1998:336; Moon & Muthuri, 2008:4). It is implicit that a for-profit organisation as a corporate citizen is subject to the same laws and moral expectations that any other citizen in society is subject to, and essentially it can therefore be held accountable for its actions on a legal and moral basis (King & Whetten, 2008:198).

It is also believed that a for-profit organisation has the capacity for self-governance, since it can establish strategy, develop and observe policies and procedures and make decisions to achieve its intended goal. Due to these 'agency' characteristics it can therefore be said to be responsible for its actions (King *et al*., 2010:294).

A for-profit organisation is regarded as being a responsible corporate citizen when it accepts it has an ethical obligation and moral responsibility for its impact on society and the environment, and that it is responsible for more than just delivering increased profits to its shareholders (Bandsuch *et al*., 2008:102-103; Marsden & Andriof, 1998:336; Moss Kanter, 2011:68; Swift, 2001:19; Wood, 2002:62).

As a responsible corporate citizen, a for-profit organisation will adopt a holistic approach to economic, social and environmental issues as an integral part of its core business strategy (King, 2009:24) and it will consider the interests of multiple stakeholders in its actions (Cartwright & Craig, 2006:743; Jamali, 2006:810; Moon & Muthuri, 2008:62). It will also measure its performance in terms of the value it creates and the manner in which it "… sustains the conditions that allow it to flourish over time", to build an enduring institution (Moss Kanter, 2011:68).

Responsible corporate citizenship in this study then refers to the ethical relationship of responsibility between the organisation, its stakeholders and the society in which it operates (Cartwright & Craig, 2006:743, Fombrun & Foss, 2004:288; King, 2009:20; Marsden & Andriof, 1998:338; Wood, 2002:62).

5.1.1 Corporate social responsibility (CSR)

In this study corporate social responsibility (CSR) is regarded as a key component of the broader notion of responsible corporate citizenship.

CSR is regarded as the responsibility of the organisation to manage the impact of its decisions and activities (such as products, services and processes) on society and the environment, through transparent and ethical behaviour that contributes to sustainable development.

A for-profit organisation does this by inter alia taking the legitimate interests and expectations of stakeholders into account, by complying with applicable laws and international norms of behaviour, by laying an ethical foundation in the organisation and by practising this in the relationships with all its stakeholders (Haque, 2010; King, 2009:20-21; Linthicum *et al*., 2010:161; Mackey, 2009:105; Moon & Muthuri, 2008:62).

CSR is seen in this study as a strategy supported by a comprehensive set of policies, practices and programmes that integrate the social, environmental and economic concerns throughout the for-profit organisation's operations and decision-making processes, with the aim of enhancing corporate performance and sustainability (Haque, 2010; Marsden & Andriof, 1998:336-338; Moon & Muthuri, 2008:61) and ensuring that the organisation can operate in a manner that "… meets or exceeds the ethical, legal, commercial and public expectations that society has of business" (Jamali, 2006:843), and in so doing earning its stakeholders' trust.

Responsible corporate citizenship, with its CSR component, is then regarded to enhance the "… moral character of firms while fostering the well-being of humanity" (Moon & Muthuri, 2008:22).

5.1.2 Corporate social investment (CSI)

Corporate social investment (CSI) is regarded in this study as just one way in which an organisation can express its corporate social responsibility, and therefore its responsible corporate citizenship. Societal pressures and shifts in stakeholder perceptions and expectations necessitate that for-profit organisations should 'put something back' into the community whose resources they utilise in business (Mackey, 2009:105; Moon & Muthuri, 2008:4,41).

CSI has developed and evolved to include much more than just financial assistance or donations that are made for altruistic purposes (Mackey, 2009:105; Marsden & Andriof, 1998:337; Moon & Muthuri, 2008:6), and is rather considered to include the investment (financial or otherwise, such as in-kind support and human resources) that a for-profit organisation makes as an *integral* component of its broader corporate sustainability strategy, which includes economic, social and environmental aspects (King, 2009:118; Marsden & Andriof, 1998:336; Moon & Muthuri, 2008:3).

By following an integrated approach, an organisation will realise a number of benefits, such as ensuring its sustainability; preserving its licence to operate; enhancing its social legitimacy; building its moral, social and reputational capital and establishing a competitive advantage based on stakeholders' trust (Jones, 2007:198; Moon & Muthuri, 2008:41; Nooteboom, 2002:147; Stout & Blair, 2001:9).

Essentially, an organisation will then also not support issues or suppliers that might harm its corporate reputation or that will be incongruent with its core identity and ethical values (Moon & Muthuri, 2008:39; Moss Kanter, 2011:74; Pirson & Malhotra, 2008:10). As Barnett and Hoffman (2008:1) aptly put it: "The company you keep affects the company you keep." An organisation's reputation then depends upon more than just its own actions; it is also influenced by the 'company' it keeps.

CSI is seen to form part of a for-profit organisation's strategic decision to extend its definition of performance from a short-term financial focus to include a focus on its longer-term environmental, social and economic impacts and value-add (Jamali, 2006:809; Moss Kanter, 2011:68), whilst pursuing its profitable core business in tandem, without tradeoffs (Bhattacharya, Korschun & Sen, 2011:2). Moss Kanter (2011:68) highlights that in many admired and high-performing organisations "… society and people are not afterthoughts or inputs to be discarded but are core to their purpose".

6 SUSTAINABILITY AND THE LINK TO CORPORATE TRUST

5.1 TRUST AN ESSENTIAL PREREQUISITE FOR SUSTAINABILITY

This study contends that corporate trust is an essential prerequisite for any for-profit organisation that wants to sustainably enable and safeguard its long-term economic and organisational performance in a competitive environment (Ingenhoff & Sommer, 2010:339).

The concept of sustainability is then regarded as core to the concept of corporate trust as presented by this study, and therefore a more detailed overview of the sustainability concept will be provided to contextualise the concept of corporate trust.

6.1.1 The development of the sustainability construct

It is thought that the concept of sustainability dates back more than 30 years, when the International Union for Conservation of Nature (ICUN) adopted a new mandate in 1969. The term was coined to suggest that it was possible to achieve economic growth and industrialisation without environmental damage (Adams, 2006:1).

Since then the definition of sustainable development has evolved. In 1987, the Brundtland Report for the World Commission on Environment and Development (WCED) defined it as *development that meets the needs of the present without compromising the ability of future generations to meet their own needs* (Bansal, 2005:197; Baumgartner, 2009:103; King, 2009:61; Porter & Kramer, 2006:81). Adams (2006:1) contends that while this definition was vague, it "… cleverly captured two fundamental issues, the problem of the environmental degradation that so commonly accompanies economic growth and yet the need for such growth to alleviate poverty".

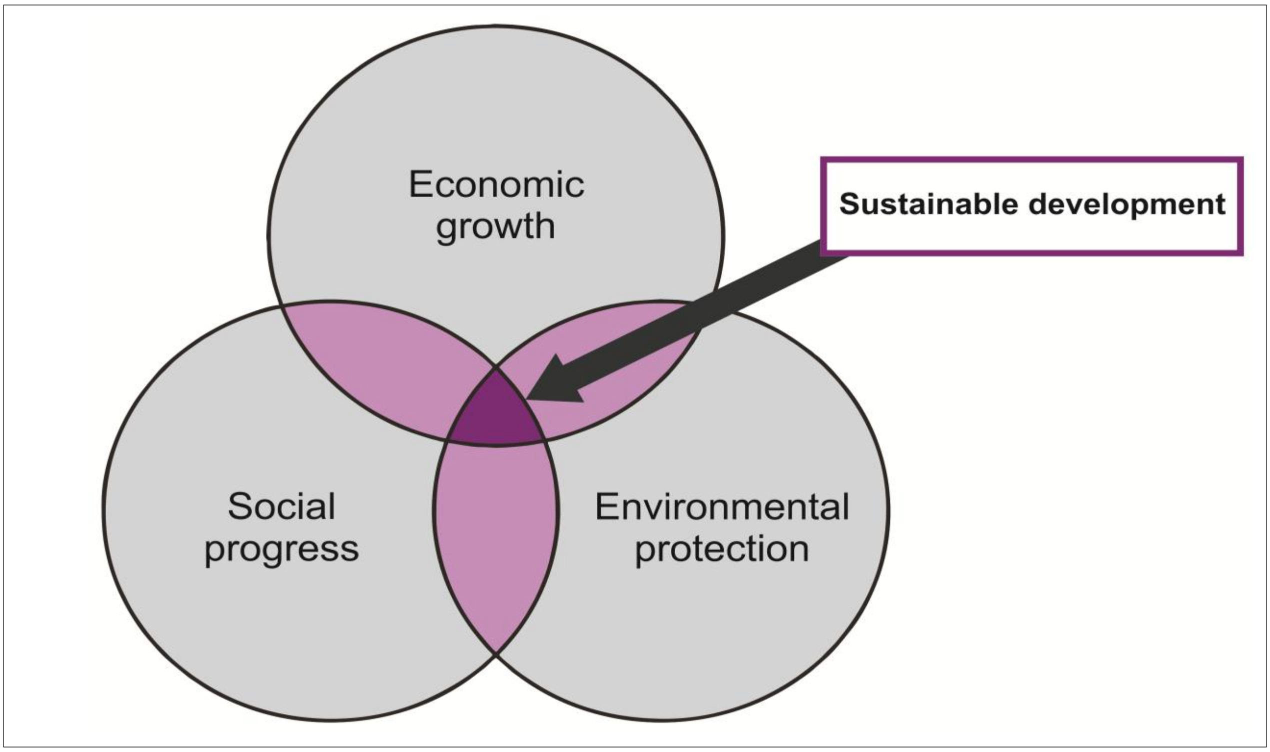
Basically, the primary focus of mainstream sustainability thinking then became the idea that there are three principles at the core of this sustainability construct, namely the protection of the natural environment, social progress and economic growth (Adams, 2006:2; Bañon Gomis *et al*., 2011:173; King, 2009:22). Sustainability was often interpreted as a condition that is supported on the three pillars of environment, society and economy (Figure 3) (Adams, 2006:2; Bañon Gomis *et al*., 2011:176-177).

Figure 3: The three pillars of sustainable development (Adams, 2006:2)

However, in the twenty-first century, this conventional understanding of sustainable development, based on these three pillars, is increasingly being questioned, particularly since "… it implies that trade-offs can always be made between environmental, social and economic dimensions of sustainability" (Adams, 2006:3).

As an alternative, the use of three interlocking circles to illustrate the concept of sustainable development was adopted in 2005 by the IUCN Programme 2005-8, to demonstrate that the three objectives need to be better integrated, with action to redress the balance between dimensions of sustainability (Figure 4) (Adams, 2006:2).

Figure 4: The interlocking circles approach to sustainable development (Adams, 2006:2)



6.1.2 Corporate sustainability: more than balancing the triple bottom line

This study accepts the hypothesis that the current level of global economic activity is placing such a burden on the natural environment and society that it reduces the level of economic activity that could be sustainable in future (Cartwright & Craig, 2004:714).

As a point of departure to develop a definition of corporate sustainability, it is practical to first explore the roots of the word. The word 'sustainability' is derived from the Latin 'sustinere', where 'tenere' means to hold, support or endure and 'sus' means up (Madsen, 2008; Oxford, 2010; Dictionary.com, 2012c). Corporate sustainability in this context therefore refers to a for-profit organisation's ability to do, and continue to do, business and achieve its economic success – its profit and growth – in a manner that is maintainable, viable and wholly morally justifiable, now and in the future (Bañon Gomis *et al*., 2011:173).

Within the delineation as set out in Figure 4, it is presumed that corporate sustainable development necessitates the concurrent adoption of the principles of environmental integrity, social equity and economic prosperity (Adams, 2006:2; Bansal, 2005:197; Bañon Gomis *et al*., 2011:173; Haque, 2010; Porter & Kramer, 2006:8; Sarkis, Meade & Presley, 2006:751), since any one of these principles on its own does not embody a sufficient condition for sustainability (Bansal, 2005:198). As such, it is assumed that "… corporate sustainable development is achieved only at the intersection of the three principles" (Bansal, 2005:199).

Much of the existent literature has concluded that organisations should integrate sustainability principles into corporate strategic policies and business processes (King, 2009:12), since the successful integration of these sustainability principles affects the triple bottom line and long-term profitability of a business and should, therefore, be treated as one of the most valued strategic assets of an organisation (Gao & Zhang, 2006:722; Helm, 2007:238; Rangan, 2011:3; Wood, 2002:62).

"Sustainability has become a strategic weapon and an imperative for most businesses in the twenty-first century and has become a fundamental market force affecting long-term financial viability and success. Companies are pursuing sustainability because they are finding business value in it." (Sarkis *et al*., 2006:752).

Jones (2007:196-197) distinguishes between four possible stances that the leadership of an organisation can take towards sustainability, namely an obstructionist approach (by behaving unethically and illegally); a defensive approach (by adhering strictly and only to what the law requires); an accommodative approach (by acknowledging the need to support social sustainability and trying to balance conflicting interests); and a proactive approach (by actively embracing the need to behave in socially responsible ways, going out of its way to learn about the needs of different stakeholders and using organisational resources to promote the interests of its multiple stakeholders, not just its shareholders).

The latter stance is similar to what Baumgartner (2009:104) refers to as a visionary strategy towards sustainability, where sustainable development is incorporated in the organisation's vision and strategy, and where "… sustainable development is deeply seated in the normative level of the company".

Based on a growing body of evidence, an organisation that takes a more sustainable approach to its business will enjoy positive benefits such as improved operational efficiencies, preservation of its licence to operate, enhanced brand value and reputation, improved access to capital, customer and employee attraction and retention, and increased revenues (The Sigma Project, 2009:1).

In the light of this, the need for an organisation to manage its resources responsibly and to sincerely take up its stewardship role, with its environmental, economic and social dimensions (Jamali, 2006:812; Sarkis *et al*., 2006:752), is acknowledged and even incorporated into the meaning of corporate sustainability in this study, particularly in conceptualising an organisation that adheres to the principles of people, planet and profit inherent in the 'triple bottom line' definition as a responsible corporate citizen.

However, the concept of sustainability is expanded in this study to include more than just these three principles. While the appeal of the triple-bottom-line approach lies in its conceptualisation of the three responsibilities that for-profit organisations need to manage, balance and reconcile to get a more balanced view of overall corporate performance, the actual management of the interrelationships and potential conflicts between the three legs of sustainability remains a challenge (Haque, 2010; Jamali, 2006:812; Sarkis *et al*., 2006:752).

It is therefore held that if sustainability is found at the intersection of the principles of environment, society and economy, at the core of the three interlocking circles in Figure 4, it must ensue from "… an underlying rationality that is common to all three and more basic than that which is peculiar to each one individually" (Bañon Gomis *et al*., 2011:179). It is argued in this study that ethics can provide such a unifying and underlying rationality (Haque, 2010).

The concept of corporate sustainability is then expanded in this study to include the strategic adoption of a proactive ethical stance to assist a for-profit organisation to manage the potential conflicts, disputes and compromises between the three sustainability principles more effectively (Bañon Gomis *et al*., 2011:175; Haque, 2010).

Using the existing approaches as outlined by Jones (2007:196-197) as a point of departure, the *Ethical Capitalist* approach is proposed in this study. Apart from being based on a proactive stance towards sustainability – as posited by Jones (2007:196) and Bakan (2004:144) – the *Ethical Capitalist* approach adopts a proactive *ethical* stance towards doing business, as well as an inclusive stakeholder view, and a corporate governance framework that is based on a stance of commitment, rather than compliance.

The concept of ethical capitalism is based on the Caux Principles for Business, which were promulgated in 1994. These principles were sponsored by the Caux Roundtable which was comprised of senior business leaders from Europe, Japan and North America (Gordon, 2001:9; Schwartz, 2005:34). The essence of this concept is an acceptance of doing business based on a common respect for the highest moral values, moving beyond the letter of law towards a spirit of trust (Friedman & Miles, 2006:276; Marsden & Andriof, 1998:333). The introduction to the principles states that the Caux Roundtable seeks to "… express a world value against which business behaviour can be measured" (Schwartz, 2005:34).

The Caux Roundtable believes that the world business community should play an important role in improving economic and social conditions, and holds that this can only be achieved with the adoption of a principled business leadership model, which at its core incorporates a worldwide vision for ethical and responsible corporate behaviour and serves as a foundation for action for leaders worldwide (Caux Roundtable: 2012).

This sentiment is subscribed to by a number of scholars, albeit under different labels. The term 'moral capitalism' is used by Stephen B. Young, Global Executive Director of the Caux Roundtable since 2000 and author of the book *Moral Capitalism* (Caux Roundtable: 2012); Charles Handy (1998:52-53) and Tom Palmer (2011:1-12). The term 'ethical capitalism' is used by Umair Haque (2010); John Douglas Bishop (2000:40-42) and Edwin Epstein (1999:255-266). John Mackey (Mackey, 2009:71-113) and Michael Strong (Strong, 2009:3-35) use the term 'conscious capitalism'. These terms are similar to the concept of stakeholder capitalism (Freeman & Phillips, 2002:339) that was discussed in Chapter 2. However, the term 'ethical capitalism' is preferred in this study.

Furthermore, and closely related to the proposed ethical framework, ‘environment’ in this study is taken to mean more than just the natural world or physical, external ecosystem, in that it also includes the ‘experienced’ or conceptual environment the organisation operates in. Corporate sustainability then does not apply to the physical world, but “… rather to our human relationship with the world” (Bañon Gomis *et al*., 2011:180).

6.2 ETHICS AS THE UNIFYING RATIONALITY OF CORPORATE SUSTAINABILITY

The view that ethics (Jones, 2007:198) can be used as the unifying and underlying rationality of corporate sustainability is based on the argument that sustainability is part of the ancient question of ethics: “How are we to live?” As such it is held that “… sustainability is a matter of ethics, and as with ethics generally, it applies to humans qua conscious beings and our relationship with the world, by which we mean the ‘experienced world’, understood in terms of three major domains: the environment, society, and the economy” (Bañon Gomis *et al*., 2011:180).

6.2.1 <u>The concept of the ‘experienced world’</u>

The concept of an experienced world is grounded in the fact that a human being can only experience the world based on the way in which it is ordered through his human rationality. Rationality here refers to “… the loosely related principles, rules, interests and goals that are used to interpret, organize, and evaluate phenomena” (Bañon Gomis *et al*., 2011:178-179), through which an individual interprets his experiences and orders his world.

The use of the term ‘experienced world’ in reference to sustainability is meant to refer to the world as experienced by people through the intermediation of their rationalities specifically associated with their environmental, social and economic experiences (Bañon Gomis *et al*., 2011:180). Sustainability then applies to the organisation’s (human) relationship with its environment and all in it, rather than the physical (natural) environment itself (Bañon Gomis *et al*., 2011:180).

6.2.2 Rational ordering of human experience through the lens of ethics

This implies that the way in which people and organisations approach sustainability will be influenced by their respective world views, which may lead to conflicting interests and priorities, as for example with a rationality of economics versus a rationality of social justice and equality.

Since different world views and rationalities would be appropriate under different circumstances, it is posited that ethics as an underlying rationality (which is both common to all three principles as well as more basic than that which is peculiar to each one individually) can be used to unify sustainability at the intersection of the economic, social and environmental domains (Bañon Gomis *et al*., 2011:179; Haque, 2010).

The lens of ethics is regarded as integral to the way in which humans rationally order their experience of the world (Bañon Gomis *et al*., 2011:179), which is why it is posited that ethics can provide the unifying and underlying rationality for corporate sustainability (Bañon Gomis *et al*., 2011:180; Jones, 2007:198; Wood, 2002:62).

An ethical framework can and should guide conduct in an organisation. Jones (2007:198) notes that some organisations, like Johnson & Johnson, "… view the company's code of ethics as the only policy to follow when an ethical dilemma is evident, and they allow this code to govern their choices".

When ethics is used like this – as a prescriptive rather than a descriptive term – it is regarded as the key by which disputes and conflicts among the economic, social and environmental domains can and ought to be resolved (Bañon Gomis *et al*., 2011:185).

It is further held that dialogue should be used to debate the conflicting interests that will arise between these domains. Furthermore, it is posited that dialogue, which is based on an ethical framework, one in which all three domains "… share in an ethic of sustainability", will assist to make real sustainability possible (Bañon Gomis *et al*., 2011:184). This point links with the argument of stakeholder-dependency that will be discussed next, following the overview of the Johnson & Johnson case study.

6.2.3 Case study: Johnson & Johnson and its ethical conduct framework

One example of a for-profit organisation that has successfully implemented the vision of using ethics as the unifying framework to guide its conduct to ensure its own sustainability is Johnson & Johnson, an American multi-national pharmaceutical, medical devices and consumer packaged goods manufacturer founded by three Johnson brothers in 1886 in New Brunswick, New Jersey, USA.

The Johnson & Johnson vision of *"Caring for the world, one person at a time"* is based on its credo that the organisation puts the needs and well-being of the people it serves first. The following extracts from its website highlight how the value-based philosophy of this organisation guided its management approach and decision-making, which has enabled it not just to survive, but to flourish in the 126 years since its inception:

"The overarching philosophy that guides our business is Our Credo, a deeply held set of values that have served as the strategic and moral compass for generations of Johnson & Johnson leaders and employees. Put simply, Our Credo challenges us to put the needs and well-being of the people we serve first. It also speaks to the responsibilities we have to our employees, to the communities in which we live and work and the world community, and to our shareholders.

We believe Our Credo is a blueprint for long-term growth and sustainability that's as relevant today as when it was written. Robert Wood Johnson, former chairman from 1932 to 1963 and a member of the Company's founding family, crafted Our Credo himself in 1943, just before Johnson & Johnson became a publicly traded company. This was long before anyone ever heard the term 'corporate social responsibility'. Our Credo is more than just a moral compass. We believe it's a recipe for business success. The fact that Johnson & Johnson is one of only a handful of companies that have flourished through more than a century of change is proof of that." (Extracted from Johnson & Johnson's corporate website, 2012).

The example of Johnson & Johnson is used to substantiate the point raised in this study, namely that a for-profit organisation that is able to build a good reputation, based on a foundation of ethical and responsible corporate citizenship principles that are institutionalised and rooted in the organisation's culture and business operations, and has proven itself to be trustworthy, will ensure its own sustainability (Friedman & Miles, 2006:234-235; Jones, 2007:54; Marsden & Andriof, 1998:337).

The Tylenol crisis at Johnson & Johnson in 1982 can serve as a pragmatic example. In brief, at that time an unknown suspect/s tampered with the product by removing it from the shelves, infecting it with cyanide and returning it to the shelves. This led to the deaths of seven people. Once the connection between the Tylenol capsules and the reported deaths was made, Johnson & Johnson made public announcements warning people about the consumption of the product, halted all advertisements of the product and immediately recalled the product from the entire country, which amounted to about 31 million bottles and a loss of more than $150 million dollars.

Even though it was not directly responsible for the deaths, Johnson & Johnson acted ethically as a responsible corporate citizen and placed public safety above profit. When it later re-launched the product, the organisation introduced a triple-seal tamper-resistant packaging. It also took several other proactive steps to protect and educate its consumers and re-establish confidence in the product and trust in the organisation (Friedman & Miles, 2006:234-235; Jones, 2007:54; Zoulas, 2010).

Paine (1994:107) notes that the decision to recall the Tylenol capsules in order to avoid further loss of life from product tampering was "… in reality not one decision but thousands of decisions made by individuals at all levels of the organization". She further observes that this decision then "… is best understood not as an isolated incident, the achievement of a lone individual, but as the reflection of an organization's culture". It is held that a deeply ingrained set of shared ethical values and guiding principles (Jones, 2007:190) in the organisation led to Johnson & Johnson's "… rapid, cohesive and ethically sound response" (Paine, 1994:107).

6.3 SUSTAINABILITY: A SOCIAL, STAKEHOLDER-DEPENDENT CONTEXT

From a corporate sustainability perspective, a for-profit organisation as a social institution has responsibilities that extend far beyond the financial return on investment for its shareholders (Moss Kanter, 2011:68). The well-being of the planet, society, communities and individuals is under threat, which means that organisations and individuals cannot continue with their current behaviour and consumption levels. As noted in the sustainable development guidelines provided by The Sigma Project (1999:84), organisations "… have a key role to play – (either) as part of the problem or as part of the solution".

In an attempt to better balance social, environmental and economic needs, a for-profit organisation then needs to accept that it is also responsible to provide or contribute to providing a sustainable life to all stakeholders, which includes its shareholders as well as its employees, customers, suppliers, local communities and the society beyond the current generation (Gao & Zhang, 2006:724; Jones, 2007:28-31; Pirson, 2009:1; Stout & Blair, 2001:28). Pirson (2009:1) observes that "… doing well by doing good" seems a promising strategy with regard to managing stakeholder trust sustainably.

There is a growing body of evidence that indicates the increased self-awareness among organisations "… that they are no longer operating in a social vacuum" (Moon & Muthuri, 2008:18). The experienced environment within which a for-profit organisation operates encompasses all the stakeholders of the organisation, as well as the social norms and values that society prescribes to.

It is posited that a conceptualisation of corporate sustainability needs to include an acknowledgement of a for-profit organisation's dependency on its stakeholders, not just in terms of managing their expectations and opinions, but more importantly in regarding them as strategic partners that can effectively assist the organisation to achieve its sustainability goal. "Placing stakeholders at the heart of the corporate sustainability and inter alia, through them balancing the interests of [sic] among themselves to ensure balanced outcomes become essential to the methodological development of corporate sustainability." (Gao & Zhang, 2006:725).

Furthermore, it is believed that authentic stakeholder engagement can assist the for-profit organisation to anticipate and manage the spectrum of organisational risk more effectively, to enhance its reputation by making sure that its stakeholders know who the organisation is, what its core values are and so increase the levels of trust in the organisation (Luhmann, 1979:19; Moon & Muthuri, 2008:42,59). Swift (2001:23) notes that more transparency and increased corporate accountability through stakeholder engagement and dialogue give stakeholders a reason to trust organisations, "… based upon their engagement experiences and the dissemination of information to them via focus groups, interviews and corporate social reports".

A for-profit organisation that uses holistic corporate sustainability as a building ideology for rethinking its business strategy, will acknowledge that it would require systemic corporate cultural changes to achieve its goal. In effect it will admit that cultural change "… will involve investing in the long term, engaging all stakeholders and building a sustainable society as part of it, not just a sustainable business in financial terms" (Gao & Zhang, 2006:724).

By accepting this dependency and engaging with its stakeholders via a two-way dialogue process, where stakeholders are consulted, listened *and* responded to in order to earn its stakeholders' trust, a for-profit organisation can then realise the key benefits and opportunities inherent in such an approach (Bañon Gomis *et al*., 2011:184; Gao & Zhang, 2006:726; The Sigma Project,1999:14,31).

It is therefore posited that stakeholder trust and engagement "… establishes a more balanced conception of the organisation as a matrix of human relationships and competencies not necessarily limited to the borders of the organisation, and may offer the possibility to create a far wider and more dynamic concept of the sustainable organisation" (Gao & Zhang, 2006:724-725). The conceptualisation of sustainability as a broader social principle and reality, then positions the concept of corporate trust definitively within the sustainability framework.

6.4 CORPORATE SUSTAINABILITY: A PROACTIVE ETHICAL APPROACH

As outlined above, the corporate sustainability perspective includes a view of corporate governance that relies on the leadership of a for-profit organisation to adopt a *proactive ethical* stance, which recognises a for-profit organisation's responsibility to multiple stakeholders, as well as its role as a shaper of society (Cartwright & Craig, 2006:743; Haque, 2010; Jones, 2007:197) and which is founded on a commitment-based corporate governance framework.

Since the concept of an *Ethical Capitalist* has been introduced to typify a for-profit organisation that adopts this proactive ethical approach to conduct its business, a few key issues are highlighted to explain the role of leaders in making such an approach a reality in their organisations.

6.4.1 <u>Primary role of the leadership of a for-profit organisation</u>

King lll emphasises the need for the board of directors to provide effective leadership, based on an ethical foundation, as a primary responsibility to ensure the sustainability of the organisation (King, 2009:20). The view here is that sustainable management requires more than just ensuring that stakeholders' needs are addressed in the development and deployment of products and services (Bucklund *et al*., 2012). Rather, it is held that stakeholders' needs and expectations need to be addressed in every facet of the way the organisation does its business, particularly from an ethical perspective.

In line with the emphasis that King lll places on responsible leadership (King, 2009:9), the ability of leaders to commit to and implement a strategic change in direction is regarded as the primary and most effective pathway to create a sustainable and trustworthy for-profit organisation (McEvily *et al*., 2008:563; Jones, 2007:42,51; Paine, 1994:112). Kramer (2010:91) observes that "… if collective trust is grounded, in part, on a confluence of signals indicating the reasonableness of trust, then the signals that organizational leaders send constitute an especially potent source of trust". Since the leaders of an organisation tend to be focal points for organisational sense-making, it stands to reason that subordinates and stakeholders will pay a great deal of attention to what those at the top do, and what they do not do (Nooteboom, 2002:75).

In clarifying strategies for ethics management, Paine (1994:113) notes that commitment and self-governance according to chosen standards form the underlying ethos of such a strategy, and she emphasises that this should be driven by the leadership of the for-profit organisation. According to her, the hallmark of an effective ethics-management strategy is that the leaders of the organisation are "… personally committed, credible, and willing to take action on the values they espouse".

Similarly, Casson and Della Giusta (2006:349), who hold that the natural method to increase trust is to encourage people to make moral commitments, argue that, from an economic perspective, "… strengthening moral commitment is the primary role of moral leaders". Moss Kanter (2011:78) also notes a key characteristic of great organisations who build enduring institutions, namely that each consists of leaders who are focused on providing a coherent and holistic values framework for their business, one in which "… elements reinforce one another, are inextricably intertwined, and reflect a logic and a leadership style that permeate the corporation".

6.4.2 A proactive ethical stance required towards sustainability

It is then posited in this study that the leadership of a for-profit organisation should adopt a proactive ethical standpoint towards sustainability (King, 2009:9), one that needs to be based on their personal conviction that this is required to ensure a sustainable economic future for their organisation as well as a sustainable future for society (Cartwright & Craig, 2006:748). By adopting this stance, the leaders will not only be exercising their authority and role to ensure the effectiveness of their organisation's operations and ability to achieve its end-goal (Selznick, 1948:29), they will also be acknowledging that there can be no profit if there aren't any people, or there is no planet (King, 2009:12).

A for-profit organisation that is serious about its own sustainability, would then heed the advice of Fombrun and Foss (2004:288): "… but in all things, establish an ethical threshold – and do not cross it". From a corporate sustainability perspective, the consideration of corporate ethics will therefore lie at the core of an organisation's goals, decision-making and behaviour, as it adopts a proactive ethical stance (Cartwright & Craig, 2006:743; Ethics Resource Center, 2009; Jones, 2007:51,197; Swift, 2001:19).

An ethical stance is regarded as being proactive when leaders of a for-profit organisation change in the direction of sustainability, not because they are compliant or responsive, but because of their personal conviction that it is 'the right thing to do'

(Cartwright & Craig, 2006:748). A proactive ethical stance is regarded in this study to be more aligned with sustainability and the inevitable processes of change and adjustments that are required (Cartwright & Craig, 2006:743; Marsden & Andriof, 1998:338).

Such a stance will also realise many other benefits for the organisation. Existent literature indicates that a for-profit organisation that pursues a strategy aimed at adding value to society as a responsible corporate citizen will incur many benefits, such as an increased likelihood of limiting regulation, improving its character, enhancing its reputation, improving its employee recruitment and retention (Salzmann, Ionescu-Somers & Steger, 2005:27) and as posited in this study, also increasing its stakeholder support and creating trust. Furthermore, the presence of corporate trust, reputation and stakeholder relations can be regarded as "… hard-to-imitate, less tangible sources of competitive advantage" in any for-profit organisation (Moon & Muthuri, 2008:19).

A clearly committed ethical leadership will therefore significantly increase the likelihood of moving the organisation towards corporate sustainability. While legislation and market mechanisms can certainly be used to persuade for-profit organisations to shift towards sustainability, there are certain limits to that which can be achieved via these avenues, primarily because these methods rely on compliance, rather than on commitment, and because these are external stimuli, which largely ignore the internal motivation and peculiarities of the business for change (Gao & Zhang, 2006:729).

In addition, it is held that the leadership will accept their responsibility concomitant to the adoption of and commitment to such a stance. This responsibility includes the need for them to make certain strategic shifts in their organisation, including a shift to move from objects to relationships; from parts to the whole; from domination to partnerships; from structures to processes; from individualism to integration; and from a preoccupation with growth to a genuine desire for corporate sustainability (Gao & Zhang, 2006:728-729).

Most importantly, it will require the leadership of a for-profit organisation to move away from their traditional rational framework that is based on maximising short-term profits and delivering returns to shareholders (Moss Kanter, 2011:68; Nooteboom, 2002:11), and adopt an ethical framework as the guiding philosophy that will direct their decision-making, actions and business operations going forward (Bañon Gomis *et al*., 2011:185; Cartwright & Craig, 2006:743; Weaver, Treviño & Cochran, 1999:293-294; Wood, 2002:62). Such a longer-term focus will include an evaluation of the organisation's social, environmental and economic impacts and the value that it is adding to society through the way that it manages these responsibilities as a responsible corporate citizen (Jamali, 2006:809).

6.4.3 A strategic shift towards long-term corporate sustainability

As an early organisational theorist, Selznick (1948:29) already highlighted the importance of a strategy and policies to guide organisational behaviour and focus employees' attention and day-to-day actions. The ability to create a sustainable and trustworthy for-profit organisation then rests on the capacity of the leadership of that organisation to visibly shift its strategic priorities (Burke, 2011:152) from a short-term financial focus towards a strategic long-term corporate sustainability focus (King, 2009:13; Moss Kanter, 2011:68; Nooteboom, 2002:11).

Stakeholders do not focus on leaders' mental mindsets, but rather on their overt behaviour, which is why Burke (2011:152) emphasises the role of leadership behaviour when he notes that a culture change begins with "… a movement first particularly with managers 'walking' in a new direction". Leaders of a for-profit organisation who want to create a sustainable organisation then need to do more than just commit to sustainability, they need to act in a manner that will manifest their commitment by changing their corporate strategy, decisions, policies, procedures and actions in line with the desired new value-based identity, by basing these on moral principles, rather than exclusively on rational and financial standards and norms (Wood, 2002:69).

This means that the espoused identity and values of the organisation need to be integrated into the normal channels of management decision-making and must be reflected in the organisation's critical activities, such as its strategies, the allocation of resources, the gathering and communication of information, as well as the measurement and recognition of performance (Paine, 1994:113). This will also include revising the corporate communication policy and the symbolism that is used to present and communicate the organisation to its stakeholders. All of these needs to be done so that the organisation can begin to implement, exhibit and communicate the value that it is adding to society through the way that it manages these responsibilities as a responsible corporate citizen (Jamali, 2006:809).

For example, the for-profit organisation can add value through its economic activities by reducing costs and improving productivity through the more effective, systemic management of its resources and the implementation of rigorous integrity policies. It can also add value through its social activities by genuinely considering and balancing the diverse expectations and needs of its different stakeholders. Bhattacharya *et al*. (2011:3) note that an organisation that truly serves stakeholders' needs increases the likelihood that those stakeholders "… will interpret the corporate responsibility initiatives more accurately and therefore more positively".

Furthermore, it is held that a for-profit organisation can add value to its environmental responsibilities by doing more than just complying with laws and regulations and running socially correct initiatives such as recycling (Jamali, 2006:812). This can be done by rather taking a more comprehensive approach to its operations, products and facilities, which includes an assessment of its products, processes and services to eliminate waste and emissions; maximise the efficiency and productivity of all assets and resources; and minimise practices that might adversely affect the enjoyment of the planet's resources by future generations.

The move towards a long-term strategic focus is then a move "… towards a more holistic performance assessment model that encompasses measures related to both multiple stakeholders and responsibilities" (Jamali, 2006:812). It is therefore posited that any organisation that wants to remain viable, needs to be able to practise sustainable management, which is regarded as the ability to direct the course of the organisation in ways that will "… restore and enhance all forms of capital (human, natural, manufactured and financial) to generate stakeholder value and contribute to the well-being of current and future generations" (Bucklund *et al*., 2012).

It is therefore posited in this study that corporate sustainability can only be given real significance and achieved through a multi-stakeholder approach, with a proactive ethical stance as its foundation (Cartwright & Craig, 2006:742; Jones, 2007:51-52,197; Gao & Zhang, 2006:724). The underlying philosophy of King lll, as well as the acceptance of the viewpoint that stakeholders, as 'ultimate compliance officers', will punish an organisation that violates governance principles, especially in ethical respects, then places the concept of corporate trust firmly at the core of corporate sustainability.

7 CONCLUSION: TRUST PROPELS THE FUNDAMENTAL SHIFT

One of the key risks and challenges that face a for-profit organisation in the twenty-first century is to ensure its own economic sustainability. Based on the conceptualisation of corporate sustainability in this study, as a for-profit organisation's ability to do, and continue to do, business and achieve its economic success – its profit and growth – in a manner that is maintainable, defensible, justifiable and viable, now and in the future (Bañon Gomis *et al*., 2011:173), its dependency on constructive relationships with all its internal and external stakeholders has been highlighted. As noted by King lll, a for-profit organisation cannot operate and ensure its own long-term economic sustainability without its stakeholders' support (King, 2009:10).

This has established the need for a for-profit organisation to earn its stakeholders' trust and support by establishing an identity and reputation as a responsible corporate citizen *and* by actually becoming one, worthy of the trust its stakeholders place in it. Mitchell (2001:128) acknowledges that "… the importance of being trusted is to instil and reinforce the character and virtue of the trusted party".

A key point that has been emphasised in this chapter is that it is therefore the for-profit organisation's consistent, trustworthy behaviour and actions, more than anything else, which shows that it bases its business operations on an ethical and value-driven foundation and has a serious regard for the impact of its business operation on the economic life of the community in which it operates (Rushton, 2002:139), which will enable it to earn the trust, and therefore the continued support, of its stakeholders.

Corporate sustainability is then related to the for-profit organisation's ability to conduct its operations, to *behave*, in such a manner that it meets its own existing needs without compromising the ability to meet its own future needs or the ability of future generations to meet their own needs. This study holds that a for-profit organisation's ability to ensure its long-term economic success in a sustainable manner is evidently linked to its ability to be trustworthy (Ingenhoff & Sommer, 2010:339; Porter & Kramer, 2006:81).

The issue of responsible leadership, which is characterised by a proactive ethical stance and the strategic intent to direct their organisation's strategies and operations with a view to achieving sustainable outcomes for all (King, 2009:9; Moss Kanter, 2011:68) is then regarded as central to the issue of sustainability and trust. It is held that the fundamental shift in the way organisations and directors act and organise themselves to address sustainability issues that King lll calls for, can only take place if an organisation adopts this view of corporate sustainability, and adopts a proactive ethical stance towards all its stakeholders; creates a trustworthy organisation and consistently acts in accordance with what it professes itself to be (King, 2009:9; Moss Kanter, 2011:78).

Since trust is seen as an outcome of the processes by which the various components of the for-profit organisation interact with each other and with its environment (Kramer, 1999:570), a for-profit organisation needs to appreciate the importance of acting in a way that will foster and build trust in the organisation and its leadership (King, 2009:10), and to do so consistently whilst delivering on its short-term needs for economic profit. This also requires the organisation not to engage in opportunistic behaviour, even in the face of short-term incentives to do so (Mackey, 2009:82-85; Nooteboom, 2002:11).

Although opportunistic behaviour might yield short-term benefits, these benefits may prove to be unsustainable over the long term (Mackey, 2009:83), and result in a long-term cost in the sense of a lack of trust that might inhibit future benefits. Hosmer (1995:386) holds that it is an economically rational decision for an organisation to do exactly what it has contracted or promised to do, since it would not want to suffer an eventual loss in reputation and hence, the support of its stakeholders.

Corporate reputation is therefore regarded to be the result of trustworthy ethical behaviour by the organisation (Hosmer, 1995:386), which results in stakeholders' trust.

CHAPTER 4

TRUST, TRUSTWORTHINESS AND TRUST-BUILDING IN A CORPORATE ENVIRONMENT

"Put not your trust in money, but put your money in trust"
– Oliver Wendell Holmes[1]

1 INTRODUCTION: TRUST AS AN ECONOMIC IMPERATIVE

Business organisations in the twenty-first century operate in an environment that is fundamentally different from the world in which the first bureaucratic organisation functioned. Despite the fact that for-profit organisations became the most powerful force in industrialised societies during the twentieth century, the future of modern-day corporations seems less certain, less knowable and less foreseeable now than ever before (Gabriel, 2001:23; Perrow, 2000:469).

This is brought about by issues such as globalisation, revolutionary changes in political, family and organisational forms, environmental degradation, growing work insecurities, the ever-increasing gap in social and economic equality, rampant poverty, the development of the stakeholder view, the growing power of consumerism, the tireless rise of powerful elites whose financial gains have been achieved at the expense of others as well as the ravages and accumulation crises of advanced capitalism (Gabriel, 2001:27,28; Lounsbury & Carberry, 2005:515; Perrow, 2000: 470,475).

The universal responses to these issues have been a renewed consciousness of and focus on the critical need to curb the adverse impact of the private sector on society at large. The shareholder view that was prevalent in the mid- to late twentieth century is increasingly being replaced by the stakeholder view. Today stakeholders, as ordinary individuals, have the means to make their voices heard and act against those private sector organisations that they believe are breaching the social contract that provides these organisations with their legitimate status in society (De la luz Fernández-Alles & Valle-Cabrera, 2006:503; Di Maria & Iwata, 2007:11,22; King, 2009:21; King *et al*., 2010:292; McPhee & Zaug, 2001:577; Swift, 2001:17). This sets the stage to position corporate trust as an economic imperative.

[1] *American physician, poet, humourist and professor at Harvard (1809 – 1894) (Thinkexist.com, 2012).*

This chapter focuses on investigating the constructs of trust, corporate trust and trustworthiness, in order to explore how an organisation can foster and earn its stakeholders' trust in order to ensure its sustainable performance. This discussion serves as the preparatory foundation for the conceptual model of the relationship between corporate trust and corporate reputation that will be developed in Chapter 7.

2 OUTLINE OF CHAPTER CONTENT

In preparation for conceptualising the corporate trust construct, the general trust construct is first defined and discussed, and the nature as well as the cognitive, emotional and behavioural dimensions of trust is explored. A distinction is made between trust and distrust, as well as between trust and confidence, cooperation, predictability and reliability.

Following this, two higher levels of trust, which involve multiple actors and contexts that exemplify a collective attribute, are discussed. This presents the opportunity to extend the general construct of trust to a corporate environment, and propose the conceptualisation of corporate trust as an additional high-level form of collective trust.

A working definition of corporate trust as conceptualised by this researcher for the purpose of this study is then provided. The rest of the discussion aims to clarify the operationalisation of the corporate trust construct in this study.

As a point of departure, the key elements and nature of corporate trust are outlined, before the antecedents of corporate trust are explored. In an endeavour to strengthen the case for building and sustaining corporate trust in a for-profit organisation, the benefits of corporate trust are outlined. In this discussion, the dominant perspective on the benefits of trust is noted, but the main focus is placed on advancing an alternative perspective, one that regards the benefits that trust as an organising principle can offer a for-profit organisation.

Several barriers to corporate trust are then discussed, followed by an overview of the sources and functions of trust in an organisation. Since corporate trust represents its stakeholders' evaluation of the organisation's trustworthiness, the link to a deliberation of the intricate relationship between trust and trustworthiness is then made. The rationale for positioning corporate trust as an economic imperative in this study is first provided to emphasise the need for and importance of trust in a corporate environment.

3 DEFINING TRUST AS A GENERAL CONSTRUCT

There is an array of definitions of trust, developed in various disciplines such as social psychology, economics, philosophy, political sciences, communication sciences and sociology (Ingenhoff & Sommer, 2010:340; Schoorman, Mayer & Davis, 2007:344). It is outside the range of this study to explore all the definitive concepts of trust from the various ontological literatures. However, in the light of the stated macro-theoretical framework of this study, trust is defined in terms of the sociological discipline and excludes an exploration of other trust constructs that are based in the disciplines of psychology, political science and economics (Ingenhoff & Sommer, 2010:340; Kramer, 2010:84; Lewis & Weigert, 2008:171; McKnight & Chervany, 2001:2; McKnight & Chervany, 2002:35,43; Nooteboom, 2002:6).

3.1 A WORKING DEFINITION OF TRUST IN A SOCIOLOGICAL CONTEXT

Trust in a sociological context is regarded on the basis of four key elements: (1) a person who trusts (2) someone or something (3) in some respect, (4) based on a specific context (Nooteboom, 2002:38). As such, trust occurs in a particular relationship between two people, in which there is a trustor (the person who trusts) and a trustee (the person who is trusted) in some respect and within a specific context (Kramer, 2010:84; Mayer *et al.*, 1995:711; McEvily *et al.*, 2008:559; Nooteboom, 2002:38).

Trust in a sociological context is then defined in this study as *an optimistic expectation or belief of the trustor concerning the behaviour of the trustee in respect of that for which he is trusted, which influences the trustor's decisions and allows him to trust the trustee.* Even though the trustor is in a position of vulnerability, the trustor believes that he can rely on the statements and promises, as well as the moral character of the trustee to act in a manner that will also protect his own rights and interests.

Based on this the trustor then acts on his decision and engages in the risk-taking behaviour, irrespective of his ability to monitor or control the trustee (Dietz & Den Hartog, 2006:559-560; Ingenhoff & Sommer, 2010:340; Lewis & Weigert, 2008:158; Linthicum *et al*., 2010:161; McEvily *et al.*, 2008:559; Mouzas *et al*., 2007:1021; Swift, 2001:19). However, the trustor uses his trust in the trustee prudently, in the sense that he would withdraw his trust and support if his trust is violated (Wicks *et al*, 1999:103). Trust, which takes a long time to be established, can be easily lost if the trustee does not fulfil his duty to protect the interests of the trustor, thereby showing him to be unworthy of the trustor's trust (Greenwood & Van Buren lll, 2010:427).

3.2 CLARIFYING THE OPERATIONALISATION OF THE TRUST CONSTRUCT

In order to clarify this definition of the general trust construct, some of the key elements that are included in conceptualising general trust in this study will first be discussed.

3.2.1 <u>Two individuals in a trustor/trustee relationship in some respect and in some context</u>

A definition of trust grounded in the sociological discipline will inherently be relational (Tyler & Degoey, 1996:345), that is it will refer to the relations among people, and it is generally explained as an optimistic expectation regarding the behaviour of other people (Nooteboom, 2002:6).

Based on an assessment of the trust literature, Kramer (2010:84) observes that scholars often talk about trust in cryptic terms, as "… if it were simply a belief, attitude, or disposition of a social perceiver". In a call for delineating the trust construct more precisely, Kramer (2010:83) notes that "… this way of talking about trust is really merely convenient shorthand for describing what is inherently a complex three-part relationship between a social perceiver and the object or target of his or her trust". In this instance, Kramer is referring to the trustor, trustee and the context in which they find themselves. Baier (2008:218) also considers trust to be based on a three-place predicate, but she offers the content of the trust (*what* the trustor trusts the trustee with) as the third element, instead of Kramer's element of context.

Nooteboom (2002:38; 2006:259) on the other hand, argues that trust is based on a four-place predicate, basically including the respective additional elements of Kramer and Baier. This study prefers Nooteboom's extended definition, which means that the specific substance of the trust, the respect in which the trustor trusts the trustee, as well as the context in which the trust judgement is applied, is taken into account. Specifically, trust in this study then involves a person who trusts (trustor) a person (trustee) (Kramer, 1999:573; Kramer, 2010:84; Mayer *et al*., 1995:711; McEvily *et al*., 2008:559) in some respect (Nooteboom, 2002:38) and within a specific context or situation in which trust judgements arise or apply (Hardin, 2002:9; Kramer, 1999:574; Kramer, 2010:84; Lewis & Weigert, 2008:171-172; Stout & Blair, 2001:16; Vanneste *et al*., 2011:15).

3.2.2 Presence of dependency, vulnerability or risk, impacting one individual

Trust, regarded as a key concept for a functioning modern society (Ingenhoff & Sommer, 2010:340), is ordinarily regarded as "… an expectation concerning the behaviour of others" (Nooteboom, 2002:6). Regardless of the context, whenever there is an imbalance in the relationship (for example on an informational level where the trusted party or trustee has more information regarding the topic relevant to the situation), the trustor is in a position of vulnerability or risk in relation to the actions of the other party, and therefore has to expect that the trustee will act in a manner that will not harm him (Ingenhoff & Sommer, 2010:340).

Trust is generally defined as *a confident or optimistic expectation, or as a feeling of security, which can be perceptual or attitudinal, concerning the behaviour of others*. This refers to the fact that the person who trusts (trustor) feels safe, assured and comfortable about the prospect of depending on the person who is being trusted (trustee).

Based on the trustor's belief that the trustee's statements can be relied on or that his promises will be fulfilled, the trustor then accepts his vulnerability to the actions of the trustee, irrespective of his ability to monitor or control the trustee (Ingenhoff & Sommer, 2010:340; Lewis & Weigert, 2008:158; McEvily *et al.*, 2008:559; Nooteboom, 2002:6). Trust is therefore conceptualised as a feeling of relative security in a situation of risk (McKnight & Chervany, 2002:45; Ratnasingham, 1998:313-314; Sichtmann, 2007:1001).

Based on this feeling of security, the trustor then decides to accept vulnerability and actually trust the other party. Dietz and Den Hartog (2006:559) hold that "… [for] a genuine state of trust to exist both the expectation of trustworthy behavior and the intention to act based upon it must be present".

McEvily *et al*. (2008:559) also argue that a willingness to be vulnerable reflects volition or intentionality, as does Nooteboom (2002:37), who observes that trust is both the basis and the outcome of behaviour, since "… trust is a disposition towards trusting behaviour; that is behaviour with limited safeguards, accepting vulnerability, based on the expectation that this risk is limited". However, Jones (1991:381) also accentuates that volition is an element in the recognition of moral issues, in that a person must acknowledge that he has a choice.

3.2.3 <u>Acting on the belief to trust the other individual</u>

The general definition of trust is extended in this study to be more than just an expectation, and is conceptualised as also including an action or behavioural manifestation (Dietz & Den Hartog, 2006:558; McEvily *et al*., 2008:559; Mitchell, 2001:110). It is held that the decision to accept vulnerability only implies an intention to act, but is not yet an actual demonstration of trust. This means that the trustor also needs to follow through on his decision by acting – by engaging in the trust-informed risk-taking behaviour (Dietz & Den Hartog, 2006:559). Trust is then only regarded as trust when it manifests in behaviour, where the trustor shows his trust (McEvily *et al*., 2008:559; Vanneste *et al*., 2011:13).

This conceptualisation of trust differs from many commonly cited conceptualisations that separate trust from its associated behaviours, and only regard trust as an expectation or a belief (Dietz & Den Hartog, 2006:560). One such example is Mayer *et al*. (1995:712), who hold that trust is not about taking a risk as such, but rather only about the willingness to take a risk (Mayer *et al*., 1995:712).

While Li and Betts (2004:5) also refer to behavioural intentions and actions, they do not see them as being part of the trust concept, but rather as a result or outcome of trust.

These authors define trust as a conscientious choice or decision that is "… preceded by expectations, which in turn are a function of perceived risk, anticipations of the outcomes associated with a specific situation and perceived trustworthiness of the party involved".

However, in this study the nature of trust is conceptualised as consisting of three fundamental dimensions: trust as an expectation or belief, a decision and an action or behavioural manifestation (Dietz & Den Hartog, 2006:558; McEvily *et al*., 2008:559).

Trust is then understood as a willingness on the part of the trustor to accept vulnerability or take risks by acting on his belief in the trustee, based on his reliance on or positive expectations of the trustee's intentions or behaviours (Baier, 1995:196; Dietz & Den Hartog, 2006:559-560; Dirks & Ferrin, 2001:451, Greenwood & Van Buren lll, 2010:426; Ingenhoff & Sommer, 2010:340; Mayer *et al*., 1995:726; McEvily *et al*., 2008:559; Mitchell, 2001:110; Schoorman *et al*., 2007:347; Wicks *et al*., 1999:100).

3.2.4 Expectation of moral element in the trustee's intent and behaviour

In this study this general definition is further extended with the understanding of trust as an expression of faith that the other party will be fair, ethical, competent and non-threatening (Ingenhoff & Sommer, 2010:340; Linthicum *et al*., 2010:161; Swift, 2001:19).

The 'expression of faith' is in line with the view that trust is based on an underlying assumption of an implicit moral duty (Baier, 2008:221; Hosmer, 1995:379; Mouzas *et al*., 2007:1021) on the part of the trustee, in that he would not only act for his own short-term gain, but would also take the valid rights and self-interest of the trustor into account (Hosmer, 1995:395; Nooteboom, 2002:11), since the trustor is in a risk situation where he is vulnerable to the actions of the trustee (Mitchell, 2001:110). It is therefore incumbent on the trustee not to abuse the trust placed in him (Greenwood & Van Buren lll, 2010:426).

According to Wicks *et al.* (1999:100), this 'expression of faith' is essentially characterised by affect (or emotion), which they describe as an emotional bond not just in the relationship but also in large part as "… a belief in the moral character or 'goodwill' of the trustee in the trusting relationship". These authors collectively refer to these two essential characteristics of trust as "… affect-based belief in the moral character of the trustor".

This view of trust as having an inherently moral element is in contrast with the rational theoretical conceptualisation of trust, which regards the moral basis as being "… not convincing as general accounts of trust" (Greenwood & Van Buren lll, 2010:425; Hardin, 2002:xx).

3.2.5 Mutual vulnerability and risk, as well as a duty to protect the trustor

Trust is also regarded to be a much broader and richer concept than reliability on the part of the trustor in this study, since it is conceptualised as incorporating mutual vulnerability and risk, for *both* the trustor and the trustee, as well as a duty on the part of the trustee to protect the trustor in order to become worthy of the trust placed in him (Greenwood & Van Buren lll, 2010:427; Nooteboom, 2002:205).

It is held that it will be important for the trustee to prove himself trustworthy to the trustor, since he realises that the trustor uses his trust in the trustee prudently (Wicks *et al*., 1999:103), in the sense that he would withdraw his trust in and support of the trustee if his trust is violated. Trust is therefore not sustainable if the trustee does not fulfil his duty to protect the interests of the trustor, thereby showing him to be unworthy of the trustor's trust (McEvily *et al*., 2008:559).

Mitchell (2001:110) observes that to be trusted means to be held accountable for the trust reposed by the trustor, "… to be held to a standard of behavior that allows these very important relationships to form and be sustained, and to be held responsible by social approbation, feelings of failure and guilt, and sometimes by law if that trust reposed is breached". He also observes, in line with much of the existent literature, that perhaps most importantly, "… to be trusted is to be told that we are trustworthy. And to be told that we are trustworthy demands that we behave at a level that reflects that gift."

3.2.6 Importance of context for trust behaviour for both individuals

The mutual vulnerability of both the trustor and the trustee highlights the importance of the context of the trust behaviour, since it is held in this study that the context helps to determine the success of the trust relationship, and that by changing or influencing the context in which the trustor has to trust, the trustee can both fulfil his duty and receive the benefits of the trustor's behaviour and support.

Reporting on David Sally's analysis of the accumulated results of 35 years of social dilemma experiments, Stout and Blair (2001:37) expand on the important relationship between context and trust behaviour, in particular with their observation that the typical individual manifests at least two distinct personalities in social relationships, namely a competitive (or self-regarding) personality and a cooperative (or other-regarding) personality, and that it is the social context, tempered by considerations of personal cost, that determines which of the two personalities emerges. Stout and Blair (2001:37) observe that when an individual's competitive personality is dominant, the individual will choose options that maximise his personal payoffs without regard for the effects on others. On the other hand, when an individual's cooperative personality governs, the individual will choose options that maximise group welfare over options that maximise his own individual welfare, implying a regard for others.

One of the critical variables that determines whether a social dilemma situation is perceived as cooperative or competitive appears to be social context – players' perceptions of what others expect and need, how others are likely to behave, and what others' relationships are to themselves (Stout & Blair, 2001:44-45). These social cues both define and determine the appropriate norm of behaviour, and as such when the social context says 'cooperate', cooperative behaviour is the norm, whereas when the context calls for self-interested behaviour, competition prevails.

This links to the point made earlier that a trustee can change the context, by changing his own behaviour. When a trustee allows his own cooperative personality to prevail, it will influence the trustor's perceptions and cue expectations of cooperative behaviour in the relationship, thus increasing the success of the trust relationship and the positive outcomes for both parties. However, Stout and Blair (2001:36) also observe that economic payoffs are not irrelevant, and that although "… people cooperate in social dilemmas even when they must incur a personal cost to do so, as the cost of cooperating increases, the levels of cooperation observed begin to decline".

The contextualist approach put forward by Hardin (1992:152) helps to acknowledge the role of the rational, calculative processes as well as the social inputs and processes in trust judgements and decisions between people. In situations or contexts involving comparative strangers, rational and calculative processes will exert a greater influence than relational or social inputs. The latter in turn will exert a greater influence in situations where the trustor and trustee know each other (Kramer, 1999:574). However, Bachmann (2006:400) observes that social actors in a business relationship do not necessarily base their decisions on rational calculations, but that they "… consider their options in the light of the social environment in which their interactions are embedded".

4 NATURE OF TRUST

Nicholas Luhmann (1979:4) claims that the world presents itself to any contemplative person as one of almost insurmountable complexity, which is difficult to manage, and that trust reduces this complexity with "… cognitive, emotional, and moral expectations that some things will remain as they are or ought to be". The nature of trust is that it reduces complexity and enables people to cope with risks (Bachmann, 2006:395); therefore, to interact with other people because they believe in their promises and goodwill, "… despite an existing informational imbalance" (Ingenhoff & Sommer, 2010:340), which makes them vulnerable to the actions of those they trust (Luhmann, 1979:8; Mitchell, 2001:110).

Baier (1995:196) postulates that this belief in the goodwill of the trustee is evident because the trustor is not overly concerned with reviewing all the possible bad outcomes before embarking on an action in order to take a calculated risk, which would not only make for more complexity, but also since she claims that part of what it is to trust is "… not to have too many thoughts about possible betrayals (which would) turn trust into mistrust". Since trust provides a feeling of security within such a situation, the trustor feels safe and assured about the prospect of depending on the trustee, or being vulnerable to the actions of the trustee (Mitchell, 2001:110).

5 DIMENSIONS OF TRUST

5.1 A MULTI-DIMENSIONAL CONSTRUCT

In this study trust is understood to be a multi-dimensional construct with definite cognitive, affective and behavioural dimensions, which combined form a single social experience (Ingenhoff & Sommer, 2010:341; Lewis & Weigert, 2008:160). Based on existent literature, the cognitive dimension of trust is regarded as important, but insufficient, to provide a complete understanding of trust.

Consequently, it is held that, in addition, two characteristics of the affect-based dimension in particular are essential for a more complete understanding of trust, namely emotion and the underlying moral element inherent in a trust relationship (Luhmann, 1979:4; Wicks *et al*., 1999:100). Furthermore, the behavioural dimension is regarded as an important third dimension of trust in this study – a conceptualisation of trust that differs from much of the existent literature (McEvily *et al*., 2008:559). Each of these dimensions will now be discussed in more detail.

5.1.1 <u>Cognitive dimension</u>

In the first place, the trustor bases his decision to trust on the perceived trustworthiness of the trustee, which means it is a decision based on his subjective evaluation of the different characteristics, attributes and behaviour of the trustee (Ingenhoff & Sommer, 2010:341). Trust is therefore based on the trustor’s knowledge and perception of among others the competence, responsibility and dependability of the trustee, i.e. his trustworthiness.

A trustor can therefore cognitively decide whether to regard a trustee as trustworthy (Ingenhoff & Sommer, 2010:341). This is comparable to the interpretation of trust as rational prediction or choice of outcomes, compared with risk behaviour (Kramer, 1999:572-574; Mishra, 1996:265; Wicks *et al*., 1999:100).

In their description of an optimal trust level, Wicks *et al.* (1999:102) note that while one ought to have a stable and ongoing commitment to trust, one should make judgements about trusting others "… carefully, realistically, even prudently". The implication is not that trust should always be only at a moderate level, but rather that trust levels should be appropriate to the context. Depending on the person and the situation the level of trust may then fall anywhere in the range of minimal to high levels of trust. According to Wicks *et al*. (1999:102), the optimal level of trust depends on "… knowing whom to trust, how much to trust them and with respect to what matters". The cognitive dimension of trust is therefore important since it helps prevent people from trusting blindly or foolishly (Powell, 1996:52; Wicks *et al*., 1999:102).

The implication is that a person deliberately chooses the people or organisations he will trust (Möllering, 2006:369), as well as under which circumstances and in which respects he will trust, and he bases his choice on cognitive ('good') reasons or evidence that constitutes trustworthiness (Ingenhoff & Sommer, 2010:341; Lewis & Weigert, 2008:161).

Trust, as a cognitive process, allows the trustor to distinguish among persons or organisations that are trustworthy, distrusted or unknown. These cognitive reasons can be related to the stakeholder's perception or knowledge of the ability, benevolence and integrity of the organisation (Ingenhoff & Sommer, 2010:341). This presupposes that there should be a certain level of cognitive familiarity with the object of trust.

According to Luhmann (1979:19), familiarity "… is the precondition for trust as well as distrust, i.e. for every sort of commitment to a particular attitude towards the future". In any instance where there is absolutely no element of familiarity, where there is complete ignorance of the trustee, the trustor will have no reason to trust (Kramer, 1996:223; Möllering, 2006:367). As Lewis and Weigert (2008:161) put it: "When faced by the totally unknown, we can gamble but we cannot trust."

In an organisational context, where the stakeholders as trustors may have no direct experience of the for-profit organisation as the trustee, reputation becomes a key dimension. The trustor becomes familiar (Luhmann, 1979:19) with the identity of the for-profit organisation through what he reads, sees, hears or experiences of the organisation and based on this he forms certain perceptions and makes an assessment of the organisation, on the basis of which he will then decide whether or not to act and trust the organisation (Blois, 1999:200; Bromley, 2002:36; Caruana, 1997:35; Casson & Della Giusta, 2006:352; Einwiller, 2003:197; McKnight & Chervany, 2006:31,41; Nooteboom, 2002:113,141; Swift, 2001:22). In this regard, reputation as identity is therefore regarded as an antecedent of trust.

Einwiller (2003:197) describes reputation as "… second-hand rumour that one has positive general traits, or as signalling the experiences of third parties with a potential exchange partner", and she also notes that the role of reputation in engendering trust has been empirically shown in existent literature, particularly that relating to e-commerce, marketing and economics.

Since most organisations invest heavily in communicating with their customers and other stakeholders, in advertising their corporate brand and in other social actions to influence people's perceptions in order to establish their corporate reputation – that is to build reputational capital – the trustor will assume that the for-profit organisation will act in a trustworthy manner (as a responsible corporate citizen) to avoid losing its good reputation (Ingenhoff & Sommer, 2010:341; Rangan, 2011:4). Stout and Blair (2001:76) also note that reputation matters not only because the threat of ruining a good reputation gives the trustor leverage to punish the trustee, but "… because a good reputation is prima facie evidence of an intrinsically trustworthy character".

Luhmann (1979:69) maintains that the cognitive content of trust is a collective rather than an individual cognitive reality, which means that the cognitive base of trust rests on the assumption that each individual can trust because he assumes that others trust. Luhmann (1979:69) describes this as "… trust in trust". However, while a certain level of knowledge of the trustee is required for the trustor to trust, knowledge alone can never establish trust – it can only serve as a platform to trust (Lewis & Weigert, 2008:161).

5.1.2 Emotional dimension

A second, and even more essential, dimension of trust is the emotional dimension, or what Wicks *et al*. (1999:100) refer to as the affect-based trust dimension, which consists of two essential elements, namely an emotional and a moral element (Luhmann, 1979:4). Emotion is held to be the first critical element of this dimension, since trust occurs because an emotional bond is created between people, enabling them to move beyond the expectations that reason, knowledge and experience warrant and take a 'leap of faith' that their trust will be honoured (Bachmann, 2006:395; Mishra, 1996:265; Möllering, 2006:370-371; Wicks *et al*., 1999:100).

This emotional component is present in all types of trust, but particularly in a relationship where the trustor and trustee know each other personally and interact frequently enough to develop these emotional bonds (Ingenhoff & Sommer, 2010:341; Lewis & Weigert, 2008:162; Mitchell, 2001:119). This has relevance for trust in an organisational context, since it highlights the importance that a for-profit organisation should develop and maintain authentic relationships with its stakeholders, and use its corporate communication and reputation-building activities to enable its stakeholders to get to know the organisation.

According to Einwiller and Will (2001:7-8), the intention to trust is grounded in an individual's attitude towards the trustee. These authors cite the theory of reasoned action, which holds that beliefs, evaluations as well as personality traits lead to the formation of an attitude that determines the intention to engage in a specific behaviour. "Attitude has been defined as 'a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor'." An individual's intention to engage in an economic transaction with an organisation can then be seen as contingent on the individual's attitude towards the organisation, which in turn is affected by the organisation's ability to evoke trust. This becomes even more vital when it is taken into account that one individual who communicates his beliefs about the organisation has the potential to influence the attitude of many others (Einwiller & Will, 2001:8).

In this study affective attributes such as liking or admiring a for-profit organisation are then regarded as important antecedents that influence stakeholders' motivation to trust

(Williams, 2001:387), in addition to the key cognitive antecedents. It is therefore held as important that a for-profit organisation should establish emotional bonds, albeit it through more indirect means, with its stakeholders.

The fact that emotion is also very much present in the case of corporate (as compared to interpersonal) trust, is evident in the outrage that people feel in cases where public trust has been violated, such as the much-publicised Enron, WorldCom and Parmalat scandals (Gillespie & Dietz, 2009:127). According to Lewis and Weigert (2008:162), it is the fact that such incidents signal an absence of trust, rather than the simple illegality of individual actions, that provokes this emotional outrage.

The relationship between the emotional and cognitive dimensions of trust is thus reciprocal (Lewis & Weigert, 2008:162). Emotional bonds have an affective impact on trust-building, the emotional content of which contributes to the cognitive platform from which trust is established and sustained (Lewis & Weigert, 2008:162). Mutual trust in relationships (when people feel they can trust others and are worthy of trust in return) provides a critical basis for self-esteem and a sense of security (Wicks *et al*., 1999:102). Trust is therefore viewed as the optimistic expectation of the eventual outcome of an uncertain event (Hosmer, 1995; Nooteboom, 2002:6).

This then provides the link to the other essential element of the emotional dimension of trust, namely the assumption of the presence of a clear moral element (Greenwood & Van Buren lll, 2010:427). Since trust "… is seen as the willingness of individuals to increase their vulnerability to the actions of others whose behavior they cannot control", Hosmer (1995:383) concurs that there is an underlying assumption of an implicit moral duty and ethical obligation on the part of the trustee, which is not to abuse his trustor's trust for his own benefit, particularly in the absence of social controls that can be used to compel restrained behaviour on the part of the trustee (Greenwood & Van Buren lll, 2010:427; Hosmer, 1995:379).

This supports the argument that Wicks *et al*. (1999:100) put forth, namely that the emotional bond between the trustor and the trustee is grounded not so much in the relationship itself, but rather in the trustor's subjective belief in the moral character, 'goodwill', or benevolent intention of the trustee in the trusting relationship. The presence of the moral element also contextualises Baier's argument mentioned earlier that too many thoughts about possible betrayals would turn trust into mistrust, and that trust as such is then actually more about taking 'not-so-calculated risks' (Baier, 1995:196).

According to Mitchell (2001:120), the element that appears to bind trust at its core, and that "… ultimately prevents defection at the undetectable margins (of trustworthiness), is affect itself". Mitchel suggests that all trusting relationships, even those that appear to be cognitive-based, are in some way affective relationships. Based on his description of affect-based trust, it is clear that Mitchell also regards the moral element as central to the construct of (affect-based) trust, when he states that the binding effect of affect, "… its moral efficacy, derives from the moral psychology that allows us to identify with other human beings for no other reason than that they themselves are, like us, human. This is all the affect we need."

With their proposition of the concept of optimal trust, Wicks *et al*. (1999:103) clearly underline how, in a trust relationship based on a moral foundation, a trustor is enabled to take a less calculated, cognitive-based risk, which is not to be confused with an ill-judged risk (Baier, 1995:196). By introducing and describing the term 'prudence', which Wicks *et al*. (1999:103) believe "… captures both of the rational prediction and affect-based belief in moral character elements that are part of a complete account of trust", these authors expand on the relationship between the cognitive and emotional dimensions of trust.

According to Wicks *et al*. (1999:103), prudence is placed in a larger moral context; presupposes a moral foundation and moral constraints; and is "… driven by a broader sense of the term self-interest (i.e. particularly the desire for community and the respect of others) and shaped by an array of moral concerns (i.e. fairness, decency and respect)", while it retains the calculative elements found in the literature on strategic management. As such, these authors then hold that both individuals and organisations should seek to trust and be trusted, "… not only because it is a desirable moral quality but because it creates economic benefits for the self and others" (Wicks *et al*., 1999:103).

5.1.3 Behavioural dimension

The third dimension of trust lies in its behavioural execution – its practical application – which is jointly related to its cognitive and emotional aspects (Lewis & Weigert, 2008:162; Mishra, 1996:265). Behaviourally, to trust is to act as if the uncertain future actions of others were indeed certain in circumstances where the violation of these expectations would result in negative consequences for those involved (Lewis & Weigert, 2008:162).

In other words, a person who trusts takes a risk or exposes himself and his vulnerabilities to the actions of others, because he has a confident expectation that they will act in his interests. In this study trust is only regarded to be trust if it manifests in behaviour, where the trustor shows the trustee his trust (McEvily *et al*., 2008:559). The relationship between the behavioural dimension and the emotional and cognitive dimensions is also reciprocal. Behavioural displays of trust help to create and strengthen the cognitive platform of trust, in that a person who sees others acting in a way that implies that they trust him, becomes more disposed to reciprocate by trusting in them more. On the other hand, when he sees others acting in a way that implies they are violating his trust or distrust him, he will become more disposed to distrust them in turn (Lewis & Weigert, 2008:162).

Trust-implying actions (or the lack thereof) have a similar positive (or negative) impact on the emotional sentiment of trust, as "… positive affect circulates among those who express trust behaviorally, just as negative affect arises among those who betray or act distrustfully toward each other" (Lewis & Weigert, 2008:162).

Stout and Blair (2001:7), in citing the extensive empirical evidence regarding human behaviour resulting from social dilemma work, also highlight that people do not trust randomly. One of the most important factors that have been identified as part of the variety of factors that predictably elicit greater or lesser degrees of trust is social context, which is individuals' perceptions of others' motivations, beliefs, likely behaviours and relationships to themselves. It was found that by manipulating the social context, social dilemma experimenters can reliably produce everything from nearly universal trust, to an almost complete absence of trust, among subjects in these games.

The relevance of this for corporate trust is that a trustworthy for-profit organisation creates a social context that increases the likelihood of producing nearly 'universal' trust in it. Since it is sending social cues to its stakeholders that both define and determine the appropriate norm of behaviour, and says 'cooperate', a for-profit organisation can increase the likelihood that cooperative behaviour from its stakeholders becomes the norm (Stout & Blair, 2001:45).

6 TRUST AND DISTRUST

Trust and distrust are not symmetric, that is distrust does not merely imply the absence of trust (Kramer, 1996:236), as some scholars such as Schoorman *et al*. (2007:350) hold. Based on their definition of trust, which includes a willingness to take risks, distrust represents the lowest level of trust or a complete lack of trust, where the trustor will not be willing to take any risks at all (Schoorman *et al*., 2007:350). In line with this, Baier (1995:200) makes this distinction between trust and distrust: "To trust is to venture, to assess and accept risks; to distrust is to be averse to, and to avoid, such risk taking."

Within a corporate context, the avoidance of risk may be represented by a stakeholder withdrawing from the organisation (i.e. not being willing to buy from, invest in, work for, support, endorse or recommend the organisation). However, feelings of distrust can also lead to active acts of obstruction or retaliation against the organisation that is being distrusted (Gillespie & Dietz, 2009:127). Burt and Knez (1996:81) found in their study that, while trust builds incrementally, distrust is more catastrophic.

The key element that distinguishes the presence of trust and the absence or lack of distrust lies in the moral aspect of trust, in other words whether there is an implied duty and a promise of protection on the part of the trusted party, offered towards the trustor who is in a position of vulnerability and reliance (Greenwood & Van Buren lll, 2010:427; Swift, 2001:20). In the absence of this moral element of the trust relationship, any action taken on the part of the trustor merely represents a logical motivation to increase his vulnerability to the actions of a trustee whose behaviour he cannot control, based on a rational prediction or calculation of that behaviour. In effect, any risk taken by the trustor in this situation is based on beliefs that are not related to the moral character of the trustee or to any implied moral contract. This rational action is better understood as the *absence* of distrust rather than the *existence* of trust (Swift, 2001:21).

In this study the split trust continuum as posited by Swift (2001:21) is used as the basis for distinguishing between trust and distrust. Trust is seen here *as the expression of a confident expectation that a trustor has in the trustee's goodwill, based on the reputation of the character of, as well as dialogue and experience with, the trustee, which are critical to this concept of trust and will leave the trustor willing to risk exposure to vulnerability and take the 'leap of faith'* (Bachmann, 2006:395; Möllering, 2006:370-371; Swift, 2001:21). Lack of trust is then regarded as *ignorance on the part of the trustor of the behaviour and intent of the trustee*.

Distrust on the other hand is defined in this study as *the level of suspicion that a trustor holds towards the trustee, based on the assumption that the trustee cannot be predicted to act in the trustor's interest, on the trustor's assumption that the trustee will pursue his own self-interest with guile, and therefore needs to be closely monitored* (Swift, 2001:21; Nooteboom, 2002:93). Lack of distrust is understood as a low level of suspicion of the trustee on the part of the trustor, based on the assumption that the trustee's behaviour is predictable.

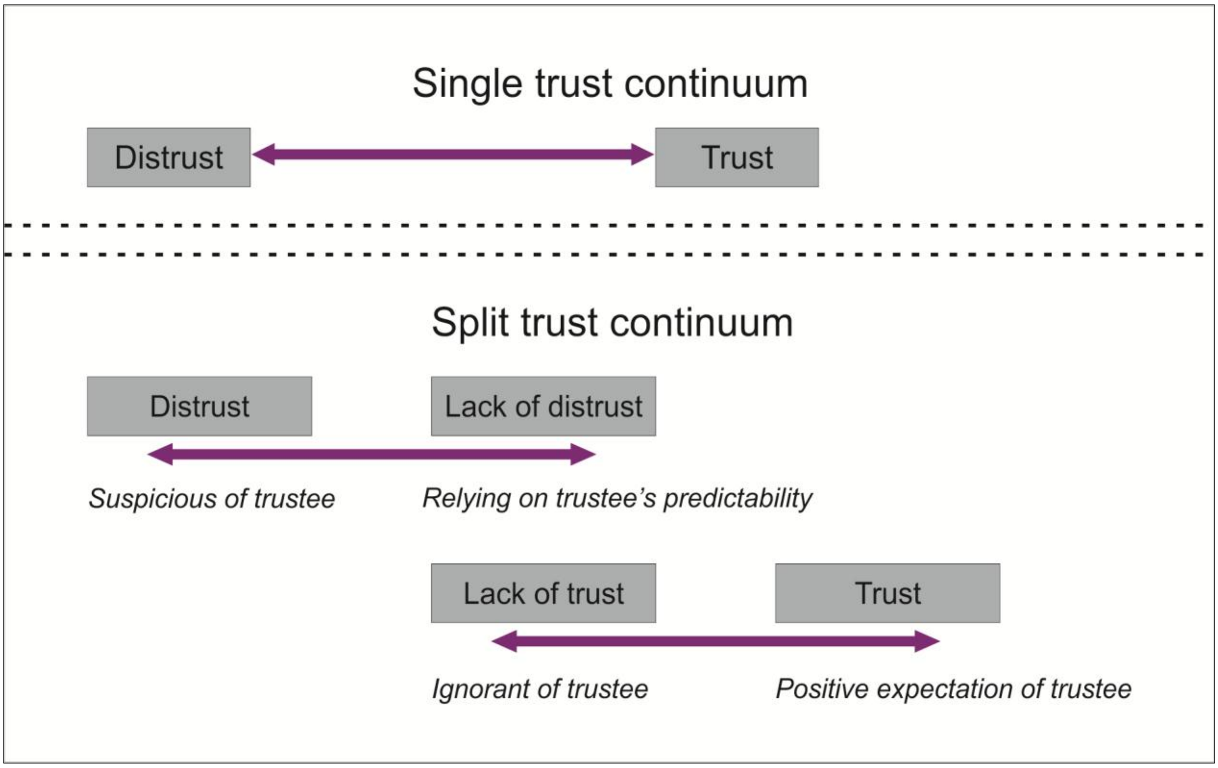
The moral aspect of trust is regarded as the key differentiator between the presence of trust and the absence of distrust, in other words the key is whether there is an implied duty and a promise of protection on the part of the trusted party, offered towards the trustor who is in a position of vulnerability and reliance (Greenwood & Van Buren lll, 2010:427; Swift, 2001:20). When this moral element is present in the relationship, trust is present. In the absence of this moral element of the trust relationship, any action taken by the trustor in this situation merely represents a logical motivation to increase his vulnerability to the actions of a trustee whose behaviour he cannot control, based not on the moral character of the trustee or any implied moral contract, but rather on a rational prediction or calculation of the trustee's behaviour.

This rational action is therefore better understood as the *absence* of distrust rather than the *existence* of trust (Swift, 2001:21). The absence of distrust is then understood as a low level of suspicion of the trustee on the part of the trustor, based on the assumption that the trustee's behaviour is predictable.

Swift (2001:21) proposes that the absence of trust differs qualitatively from the presence of distrust, since lack of trust "… stems from ignorance of the other's behaviour and intent", whereas distrust on the other hand is seen as based on the trustor's assumption that the trustee will pursue his own self-interest with guile, and therefore needs to be watched. If the lack of distrust is therefore understood as the opposite of distrust, then the presence of trust is best described as the opposite of the lack of trust.

Based on this understanding, the representation of trust as a single continuum is no longer suitable, and the split trust continuum, as posited by Swift (2001:21), helps to explain what appear to be mutually exclusive ideals since it is based upon a deeper understanding of trust (Swift, 2001:24). Figure 5 depicts a split trust continuum in comparison to a single trust continuum:

<u>Figure 5</u>: Split trust continuum (adapted from Swift, 2001:22)



The distrust/lack-of-distrust continuum will prevail where trust is defined as *reliance upon predictable behaviour that is guaranteed by social controls.* This half of the continuum refers to the range of suspicion that a trustor has of the trustee. As such, distrust is depicted as the assumption that the for-profit organisation cannot be predicted to act in the stakeholder's interest and is likely to pursue self-interest, and therefore the stakeholder as trustor has a high level of suspicion of the organisation. Lack of distrust is then understood to be a low level of suspicion of the organisation, based on the supposition that its behaviour is predictable. Distrust as a barrier to trust will be discussed later in this chapter.

However, where trust is defined as *confident expectations of goodwill*, the lack-of-trust/trust continuum will prevail, and this half of the continuum does not assume rationality and represents the range of vulnerability between the trustor and the trustee, which allows for a higher level of emotion and therefore the inclusion of moral duty (Swift, 2001:21).

A lack of trust is then understood as *the concept that applies when a stakeholder does not have knowledge of or confidence in the for-profit organisation's trustworthiness, which will make him as trustor less willing to take a risk or be vulnerable.* The latter definition is pertinent to this study.

This is consistent with the definition and explanations of trust discussed earlier (Hosmer, 1995; Wicks *et al*., 1999). The split trust continuum suggests that one could arrive at the same position by having either a lack of trust or a lack of distrust. A process that would reduce distrust could just as readily reduce trust. If this is the case, then the split trust continuum can allow the apparently paradoxical absence of trust and distrust at the same time (Swift, 2001:21).

7 CONFIDENCE, COOPERATION, PREDICTABILITY, RELIABILITY

In defining what trust is, it is also important to note what it is not. Although trust has at times been used as synonymous to confidence, cooperation, predictability and reliability, these concepts are not equivalent (Blois, 1999:199; Luhmann, 1988:97; Luhmann, 2000:103-104; Mayer *et al*., 1995:713; Nooteboom, 2002:55).

7.1 TRUST: PRESENCE OF RISK, UNCERTAINTY AND DEPENDENCY

Based on the definition of trust offered earlier, it is important to note that the need for trust will only be present in a situation where risk, uncertainty, vulnerability and dependency exist (Baier, 1995:200; Baier, 2008:217; Ingenhoff & Sommer, 2010:340; Mayer *et al*., 1995:711; Nooteboom, 2002:5; Sichtmann, 2007:1011; Wicks *et al.,* 1999:100). This is the key differentiating characteristic between trust on the one hand and confidence, cooperation, predictability and reliability on the other.

7.1.1 Trust and confidence

While confidence also relates to an expectation that may lead to disappointment, it differs from trust in that it does not require consideration to be given to alternatives, in other words there is no risk or vulnerability involved. According to Luhmann (1988:97), trust differs from confidence because it requires a previous engagement on a person's part, recognising and accepting that risk exists.

Luhmann pairs trust with risk and confidence with danger, and notes that while one is 'faced' with danger (i.e. no choice is involved), one 'takes' a risk (i.e. choice is involved). This means that another differentiating factor is that confidence is externally oriented, as opposed to trust, which is internally oriented (Luhmann, 1988:97; Nooteboom, 2002:55). When disappointment occurs in the case of trust, a person attributes responsibility for the outcome to his own behaviour.

The opposite is true in the case of confidence (Luhmann, 1988:97-98). Another distinction between these two concepts refers to the consequences when these are lacking: where a lack of confidence will lead to feelings of alienation, the lack of trust will simply lead to a withdrawal of activities, which "… reduces the range of possibilities for rational action" (Luhmann, 2000:103-104), for example it will prevent capital investment under conditions of uncertainty and risk.

This underlines the argument in this study that stakeholders' trust in (and therefore support for) an organisation is critical to its economic sustainability. "Through lack of trust a system may lose size; it may even shrink below a critical threshold necessary for its own reproduction at a certain level of development." (Luhmann, 2000:104).

7.1.2 Trust and cooperation

Cooperation also needs to be distinguished from trust, in that vulnerability is minimal or absent. While trust can lead to cooperative behaviour, it is not a necessary condition for cooperation to occur (Mishra, 1996:265), since cooperation does not necessarily put a party at risk (Mayer *et al*., 1995:712). It is possible to cooperate with someone without trusting that person (Mayer *et al*., 1995:713).

7.1.3 Trust and predictability

Although there is a clear relationship between trust and predictability (in that both are means to reduce uncertainty), the differentiating factor between these two constructs is the absence of willingness to take a risk or to be vulnerable in the relationship in the case of predictability. A person who consistently ignores the needs of others and acts in a self-interested fashion is predictable, but not necessarily trusted. As Mayer *et al*. (1995:714) state: "To be meaningful, trust must go beyond predictability."

7.1.4 Trust and reliability

The distinction between trusting and relying on somebody essentially lies in the fact that trust involves a dependence on the trustee's goodwill and not just his consistent and dependable habits, which is something that can be relied on. The fundamental difference between reliance and trust is that reliance is dependent on proven capability while trust is dependent on stated commitment (Blois, 1999:200).

It is then possible to rely on someone even when there is specifically no trust. Blois (1999:199) observes that the emotive element is the key differentiator between these two constructs, which becomes apparent when the trustor is let down by the trustee: "If we are let down by those we trust we feel hurt, perhaps even resentful, while when we are let down by those on whom we only rely we might be annoyed but are not hurt." In any trust relationship, the trustor has an expectation that the trustee's actions will result in positive outcomes.

Blois (1999:199) therefore also notes that what further distinguishes trust from reliance is the expectation that the trustee may take initiatives or exercise discretion to utilise new opportunities to the trustor's advantage, over and above what was either explicitly or implicitly promised.

8 HIGH-LEVEL TRUST CONCEPTS: COLLECTIVE ATTRIBUTE

With the basic theoretical framework for the trust construct outlined, it will be prudent to explore two high-level trust concepts, both of which are embedded in the conception of trust as a collective attribute, and are therefore acutely pertinent to this study.

8.1 EXISTING HIGH-LEVEL TRUST CONCEPTS

The concepts of institutional trust and systems trust as two existing high-level trust concepts are discussed first, before the concept of corporate trust is posited as an additional (third) high-level form of collective trust, and outlined in more detail.

8.1.1 <u>Institution-based trust as a high-level form of trust</u>

There are various forms of trust, including dispositional trust, which refers to general trust in others and stems from psychology and economics; interpersonal or relational trust, which refers to trust in specific others and stems from social psychology and economics; and institution-based trust, which refers to trust in the situation or structures and stems from sociology (Greenwood & Van Buren lll, 2010:430; Ingenhoff & Sommer, 2010:340; McKnight & Chervany, 2002:35,43).

Institution-based trust can refer to trust in a tradition or custom that has become institutionalised, which refers to patterns of thinking and behaviour that become established, to the point that these social arrangements take on a rule-like quality which can then assist in ordering social interaction (Lammers & Barbour, 2006:358). Selznick (1996:271) describes institutionalism as "… the emergence of orderly, stable, socially integrating patterns out of unstable, loosely organized, or narrowly technical activities". Many symbols have become institutionalised in modern society, for example Baier (1995:197) refers to the symbolism of a handshake, while Luhmann (1979:48-49) refers to the institutionalisation of money.

Actors learn about the reliability of institutions, situations or structures through their own direct experience and facilitated demonstrations that institutions operate as they should. Institutions are then a basis for trust between actors, because they suggest a high degree of implicit agreement and acceptance, which enables shared expectations even between actors who have no mutual experience or history of interaction. According to Möllering (2006:373), this is possible in the first instance because "… this approach is based on the phenomenological assumption that actors are looking at the world from within the natural attitude, relying on constitutive expectancies and the validity of institutionalized rules, roles and routines". Institution-based trust is empirically vital because it implies institutions as an object of trust, too, and not only a source (Möllering, 2006:363).

In this study institution-based trust is also seen to refer to trust in a for-profit organisation as an institution. As such, institutions can then "… be seen as bases, carriers and objects of trust: trust between actors can be based on institutions, trust can be institutionalized, and institutions themselves can only be effective if they are trusted" (Möllering, 2006:365).

According to McKnight and Chervany (2002:35), trust is central to all commercial relationships, since it is crucial wherever risk, uncertainty, or interdependence exist. Institution-based trust is defined as *trust in the situation or structures and as such it is regarded as being "… situation-specific but cross-personal because it means that one trusts the specific situation but does so irrespective of the specific people in that situation"* (McKnight & Chervany, 2002:43). This makes the concept of institution-based trust very applicable to the construct of corporate trust.

McKnight and Chervany (2002:48) describe two sub-constructs of institution-based trust, namely structural assurance and situational normality, which help create an environment conducive to success and trust. Structural assurance refers to the belief of people that protective structures such as processes, procedures, promises, guarantees, contracts, regulations and legal recourse are in place in an institution or organisation, and this makes the situation conducive to success and trust. The second sub-construct, namely situational normality, refers to the belief and perception that the situation in an institution or organisation is normal, proper, fitting and in good order and this makes the situation favourable or conducive to success and trust (McKnight & Chervany, 2002:48).

Trust in an institution therefore means confidence in the institution's reliable functioning, "… but this has to be based mainly on trust in visible controls or representative performances rather than on the internal workings of the institution as a whole" (Möllering, 2006:365). Implicit in the concept of institutional trust is the notion that trust can be a collective attribute. Greenwood and Van Buren lll (2010:430) note that the "… idea that trust can be institution-based rather than personally-based is implicit in a government's institutions and legal system". As such, the concept of institution-based trust offers pertinent value for this study.

Furthermore, this perspective of institution-based trust is seen to be similar to the distinction that Lewis and Weigert (2008:164) and Luhmann (1979:50) make between interpersonal trust and systems trust, which is regarded as being "… indispensable for the effective functioning of the 'symbolic media of exchange' such as money and political power".

In order to present a wider background for institution-based trust and in leading up to contextualising trust as an additional form of collective trust in a corporate environment, a more detailed overview of systems trust will first be provided.

8.1.2 <u>Systems trust as a second high-level form of trust</u>

Since a social order cannot operate on the basis of everyone personally knowing and trusting all the individuals they come into contact with on a daily basis, trust in a system offers another way of building trust, which does not depend on the personal element (Luhmann, 1979:46). The concept of systems trust is also based on the understanding of trust as a collective rather than a personal attribute, in that systems trust refers to the trust an individual holds in the functioning and reliability of impersonal social structures, which is process-based tied to a record of past operations (Bromley, 2002:36; Greenwood & Van Buren lll, 2010: 430).

Systems trust, defined as *trust in the functioning of bureaucratic sanctions and safeguards* (Lewis & Weigert, 2008:164; Luhmann, 1979:50), is mainly established by institutionalising the use of laws, rules and other cultural symbols, which then structures an individual's expectations and motivations of what to expect in unfamiliar situations (Lewis & Weigert, 2008:165). As Luhmann (2000:95) puts it: "We can live within a familiar world because we can, using symbols, reintroduce the unfamiliar into the familiar." According to Luhmann (2000:96), symbols represent the distinction between 'familiar' and 'unfamiliar' within the familiar world.

Luhmann (1979:38,48) holds that the high degree of complexity in the world assumes a multiplicity of selective processes, and since people come into contact and have to deal with a number of virtual strangers on a daily basis in order to function, systems trust offers a common means by which the selections of different parties can be connected to one another. Luhmann (1979:48-49) also maintains that the processes for differentiating and connecting multiple selections are socially regulated through the generalising media of communication (language, culture and symbols). "Anyone who trusts in the stability of the value of money, and the continuity of a multiplicity of opportunities for spending it, basically assumes that a system is functioning and places his trust in that function, not in people" (Luhmann, 1979:50). This view is echoed by Lewis and Weigert (2008:164), Baier (1995:197) and Möllering (2006:364-365).

Many symbols have become institutionalised in modern society. Baier (1995:197) refers to the symbolism of a handshake, either as a means to seal a deal or simply as a greeting. In the case of the former, trust is placed in the partner to the handshake not only to honour whatever deal the handshake seals, but also in trusting him "… to be what he purports to be, a partner in a reciprocal and nonharmful gestural exchange". In the case of the latter (where the handshake simply represents a greeting), the owner of the handshake still uses it to symbolise how he wants to present himself and to declare his feelings of equality, reciprocity and goodwill.

While this serves as just one example of how institutionalised symbols can assist to reduce the high degree of complexity in the world by providing an orderly and common means by which different parties can connect and convey meaning to each other, Baier (1995:197) notes that it should be kept in mind that this is still only pretence, which like any other pretence can be false.

Kramer (2010:94) also highlights the fact that all the signs of trustworthiness can be faked, and those signs that are considered to be most reliable and most indicative may be the easiest to fake. As Gambetta and Hamill (in Kramer, 2010:94) point out "… skilful impersonators can always mimic the outward signs or appearance of trustworthiness, thus lulling potential victims into a false sense of security". Enron is a case in point of such mimicry and deception at a collective level (Davies *et al*., 2010:531; Keh & Xie, 2009:732; Neufeld, 2007:40; Turnbull, 2002:13).

A more recent, and perhaps even more compelling example because of the sheer scale and longevity of the deception, is the fraud perpetuated by Bernard Madoff, a former American businessman, stockbroker, investment advisor and financier (Frank & Efrati, 2009; Uslaner, 2010:120). In June 2009 Madoff, as the admitted operator that ran a Ponzi scheme for at least 20 years, which is considered to be the largest financial fraud in the United States of America's history, was sentenced to the maximum 150 years behind bars for what his judge called an 'extraordinarily evil' fraud that shook the nation's faith in its financial and legal systems (Frank & Efrati, 2009).

Kramer (2010:94) notes that Madoff managed to create an immense institutionalised deception that fooled a vast collective of associates and investors, and warns that "… a little prudent paranoia and due diligence are also warranted, especially in situations where the costs of misplaced or mistaken trust are high". This links with Luhmann's view that, unlike personal trust that relies on a kind of "… naive experience of familiarity with the everyday world", trust in a system is more guarded and restrained. This is because with systems trust one is continually conscious that everything that is accomplished is a product – a self-presentation – devised by people who have decided on a specific action within a range of other possible actions, including that which an entity (either an individual or an organisation) wants to be known of itself and makes socially visible (Luhmann, 1979:39).

As an alternative method to foster and build stakeholders' trust in an entity, without their direct personal knowledge of and experiences with the entity, systems trust is then regarded as being critical for modern social institutions to function.

The concept of systems trust is important to this study for two reasons. In the first place, systems trust is regarded as being "… indispensable for the effective functioning of the 'symbolic media of exchange' such as money and political power" (Lewis & Weigert, 2008:164). Without systems trust, no for-profit organisation would be able to operate.

In the second place, a for-profit organisation needs to appreciate that the use of its own institutionalised symbols and communication relating to the organisation would be understood to be 'socially contrived', and as such stakeholders would be more guarded and restrained in placing their trust in the organisation. Stakeholders will be conscious of the subjective, socially contrived symbols and communication used by the for-profit organisation, aimed at presenting and making visible that which the organisation wants to be known of itself (Luhmann, 1979:39).

To overcome this encumbrance, a for-profit organisation needs to make its internal controls explicit. According to Luhmann (1979:58), systems trust counts on explicit processes for the reduction of complexity (Luhmann, 1979:58). By making its controls explicit, a for-profit organisation can then cultivate trust in its ability to function as a system by building trust in the ability of the organisation's internal controls to function (Luhmann, 1979:57-58).

Within the context of this study, the role of an integrated report in helping the for-profit organisation to be transparent about its controls and performance as a responsible corporate citizen is therefore highlighted. However, and even more importantly, the for-profit organisation also needs to be consistent in its behaviour and stand by what it has been presenting and communicating about the organisation, it needs to keep its promises, if it wants to become worthy of its stakeholders' trust (Luhmann, 1979:39; Sichtmann, 2007:1011).

8.2 CORPORATE TRUST AS ANOTHER HIGH-LEVEL FORM OF TRUST

Since both the high-level trust concepts of institution-based trust and systems trust share that which is characteristic of relations between organisations and stakeholders, the proposal made by Greenwood and Van Buren lll (2010:430), namely that both these high-level concepts allow for the conceptualisation of an additional form of collective trust, "… that being organizational trust and its corresponding notion of organizational trustworthiness", is acknowledged and assimilated in this study.

This is in line with Kramer's (2010:82) conceptualisation of collective trust. In making the distinction between interpersonal trust and collective trust, Kramer highlights that the distinctive characteristic of collective trust is that its target is the organisation and its collective membership as a whole. He notes that "… the cognitive unit is a larger social aggregate, defined and bounded by common membership in the organization".

According to Kramer (2010:95), one of the most important implications of a fully developed theory of collective trust, including a significant understanding of its antecedents and consequences, is that it provides the foundation for a theory of organisational trustworthiness. Kramer (2010:95) observes: "We need more trustworthy organizations – organizations that reliably produce competent results and that are motivated not only to 'do no evil', but also to do good."

This view is then similar to the one held in this study with regard to trust in an organisational context. However, in this study the terms corporate trust and corporate trustworthiness are preferred to refer to the trust between individual stakeholders and/or groups of stakeholders, and the for-profit organisation as a social actor and an entity in and of itself (Greenwood & Van Buren lll, 2010: 429; King, 2009:11,12; King *et al*., 2010:290; Moon & Muthuri, 2008:4).

As such, corporate trust is posited as the third high-level form of collective trust in this study – a concept that refers to trust between an individual stakeholder or a group of stakeholders and a for-profit organisation, but can also extend to the idea of trust among organisations (Bachmann, 2006:405; Greenwood & Van Buren lll, 2010:430). Similarly, the corresponding concept of corporate trustworthiness is then taken to refer to a virtue or set of virtues held by the for-profit organisation, exhibiting its worthiness to be trusted as an entity in its own right, separate from the virtues held by the employees or representatives of the organisation (Greenwood & Van Buren lll, 2010: 429; King, 2009:11,12; King *et al*., 2010:290; Kramer, 2010:82; Moon & Muthuri, 2008:4).

As outlined earlier, the moral component of the concept of trustworthiness is essential, and the idea that a for-profit organisation can be an object of trust and display characteristics of trustworthiness, such as ability, benevolence and integrity, is centred on the concept of the for-profit organisation as a social actor and a moral agent in its own right, "… albeit one that exercises its morality through the actions of its members" (Greenwood & Van Buren lll, 2010:430).

When the moral responsibility and activity of a for-profit organisation, and the possibility of an ethical and virtuous organisation are accepted, the suggestion that an organisation as a whole can be an actor in the trust relationship and can possess (or not possess) the attribute of trustworthiness follows as a logical extension. It is therefore clearly stated that corporate trustworthiness "… is entirely separate from (albeit possibly highly related to) manager trustworthiness, which may be understood as a characteristic of individual managers or a management group" (Greenwood & Van Buren lll, 2010:430).

9 DEFINING CORPORATE TRUST

The theoretical framework and definition of trust as a general construct that has been discussed above will be used as a point of departure to further explore and define trust in an organisational context. The sociological perspective is primarily used as basis in this study, with the theoretical perspective limited to corporate trust (also called institutional or collective trust) as a construct (Bachmann, 2006:405; Einwiller & Will, 2001:6; Kramer, 2010:84; Kramer *et al*., 1996:357; McKnight & Chervany, 2002:35,43).

9.1 A WORKING DEFINITION OF CORPORATE TRUST

Corporate trust, which is regarded as an economic imperative for the long-term economic sustainability of a for-profit organisation, occurs in a relationship (albeit on a less personal level) between a for-profit organisation, regarded as a social actor in its own right, as the trustee and its stakeholders as multiple trustors (Greenwood & Van Buren lll, 2010:429; King, 2009:11,12; King *et al*., 2010:290; Kramer, 2010:82; Moon & Muthuri, 2008:4; Nooteboom, 2002:38), where stakeholders trust the organisation to act in an ethical, trustworthy and socially responsible manner in the course of its commercial activities.

Based on the key elements of corporate trust discussed above, the following composite definition for corporate trust, based on a number of sources, is proposed in this study:

Corporate trust is defined in this study as *a subjective attitude, belief and optimistic expectation by a stakeholder or group of stakeholders that their dependence on the for-profit organisation will not be abused, which influences their decisions and allows them to support the organisation.*

This researcher holds that this belief is based on the organisation's consistent demonstration that it has voluntarily accepted its moral duty to act in a manner that is ethically justifiable and socially responsible, by taking morally correct decisions and actions based upon ethical principles of analysis to protect the rights and interests of all its stakeholders to the good of society, in any joint endeavour and economic exchange, as well as in the manner that it conducts its overall operations as a responsible corporate citizen. Based on this expectation, stakeholders will commit to and actively support the organisation.

Trust can then be described as *an attitude that allows for risk-taking decisions* (Einwiller & Will, 2001:6; Luhmann, 2000:103). Based on this belief, the stakeholders then act on their decision and engage in the trust-informed risk-taking behaviour, irrespective of their ability to monitor or control the organisation (Dietz & Den Hartog, 2006:379,558; Hosmer, 1995:399; McEvily *et al*., 2008:559; McKnight & Chervany, 2002:45; Mouzas *et al*., 2007:1021; Sichtmann, 2007:1001; Swift, 2001:20).

Since stakeholders cannot always directly interact with, monitor or control the decisions or actions of the organisation, they are vulnerable to its actions. Similarly, a for-profit organisation is vulnerable to its stakeholders' actions, in that it requires its stakeholders' trust and support to be successful in its business operations. Since stakeholders, who use their trust in the organisation prudently, will withdraw their trust and support if their trust in the organisation is violated, corporate trust is held not to be sustainable if the for-profit organisation shows itself to be unworthy of its stakeholders' trust.

9.2 CLARIFYING THE OPERATIONALISATION OF THE CORPORATE TRUST CONSTRUCT

In order to clarify the working definition of the corporate trust construct offered in this study, some of the key elements that are included in conceptualising the corporate trust construct in this study will first be discussed.

This study focuses on exploring trust within a corporate context, one in which the concepts of responsible corporate citizen and sustainability are fundamental to the role of a for-profit organisation. As such, the definition of corporate trust in this study attempts to combine that which is essential to the field of philosophical ethics, i.e. that which is right, just and fair, and organisational theory, i.e. that which is efficient, effective and practical (Hosmer, 1995:381).

In addition, the reliance of the stakeholders as the trusting party on ethical corporate behaviour, the presence of mutual vulnerability in the corporate trust relationship, as well as the duty incumbent on the organisation as the trusted party (Greenwood & Van Buren lll, 2010:426) – if it wants to earn its stakeholders' trust, and therefore their support to ensure its own long-term economic sustainability – are explored.

9.2.1 <u>Multiple actors involved in a trustee/trustor relationship</u>

Contrary to dyadic trust which, as the simplest form of a trust relationship, involves one specific trustor and one designated trustee in some kind of interdependent relationship

(Burt & Knez, 1996:68), collective trust in a corporate context is much more complex since it involves multiple actors and contexts (Kramer, 2010:84).

Although the interdependency of individuals as members of the organisation is acknowledged, it should be highlighted that this study regards a for-profit organisation as a person, a social actor, in its own right (Greenwood & Van Buren lll, 2010: 429; King, 2009:11,12; King *et al*., 2010:290; Kramer, 2010:82; Moon & Muthuri, 2008:4). As such, the trustors in a corporate trust context are deemed to be the stakeholders of a for-profit organisation, whereas the trustee is seen to be the for-profit organisation and its collective membership as a whole (Bachmann, 2006:405). The term stakeholders can be viewed as a collective term for a group of stakeholders or for individual stakeholders. Similarly, the term organisation can be viewed as a collective term or a euphemism to refer to key decision-makers as representatives of a for-profit organisation (Greenwood & Van Buren lll, 2010:429).

Corporate trust occurs then as an interaction between two parties, namely multiple subjects or trustors (stakeholders) who show the trust, and a single object or trustee (a for-profit organisation) who can be trusted (Einwiller, 2003:198; Kramer, 2010:86; McKnight & Chervany, 2002:43; Nooteboom, 2002:10; Ratnasingham, 1998: 313-314; Sichtmann, 2007:1001; Swift, 2001:19), in respect of the organisation's ethical, trustworthy and socially responsible behaviour in the course of its commercial activities (Nooteboom, 2006:249).

Corporate trust, or what McKnight and Chervany (2002:42) refer to as institution-based trust and Kramer (2010:84) refers to as collective trust, then refers to trust that is built on an organisational level between stakeholders and a for-profit organisation (Ingenhoff & Sommer, 2010:342).

9.2.2 <u>Presence of dependency; vulnerability in a less familiar context</u>

A second key element of corporate trust is that it also occurs under conditions of vulnerability and dependency, and can therefore also be conceptualised as a confident or optimistic expectation, a feeling of relative security in a situation of risk, on the part of the stakeholders concerning the behaviour of a for-profit organisation (McKnight & Chervany, 2002:45; Ratnasingham, 1998:313; Sichtmann, 2007:1001).

However, the complexity of corporate trust is not only influenced by the multiplicity of the parties involved in the trust relationship, but also by the lack of familiarity between the parties (Kramer, 2010:84), a familiarity that is needed to ensure that the stakeholders can feel safe and assured about the prospect of depending on the organisation, or being vulnerable to the actions of the organisation. Since there is bound to be less familiarity and less direct interaction between the two parties, the level of complexity increases in a corporate trust context (Kramer, 2010:84; Kramer *et al*., 1996:364).

In an interpersonal context trust entails a prediction about the behaviour of an independent actor, and this belief rests on intimate familiarity with this individual. A corporate context, however, provides a larger and more complex setting for trust, one that requires a less individuated, more impersonal and more indirect form of trust (Kramer, 2010:84; Mitchell, 2001:120).

As such, it is understood that the internal and external stakeholders involved in a corporate trust relationship and context are unlikely to have the required detailed, personal knowledge of the for-profit organisation that usually provides the foundation for interpersonal trust. “Instead, they must interact with myriad others, often on the basis of scant individuating information, transient goals, infrequent contact, and only superficial familiarity.” (Kramer, 2010:84).

Today’s modern world, characterised by issues such as the digital revolution, globalisation and urbanisation, presents increased challenges for organisations (Iwata, 2009:1). Globalisation detaches organisations from one specific society but at the same time requires that companies internalise the needs of many societies (Moss Kanter, 2011:70). Since this has led to power being dispersed in multiple ways to new ‘actors’, organisations now have to deal with an extended stakeholder constituency, which has moved beyond the initial narrow scope of shareholder and even customer and employee to one that includes stakeholders who are not directly involved with the organisation, such as activist groups, society and non-governmental organisations (Rangan, 2011:6).

At the same time the expectations of stakeholders have changed, and now go beyond a scanty focus on an organisation's products and services to an extended emphasis on social issues, related to corporate sustainability, equity and fairness (Iwata, 2009:1; Uslaner, 2010:117). These stakeholder expectations are regarded as valid, since any relationship that they have with the organisation is characterised by a level of risk, uncertainty or interdependence, which then leaves the stakeholders vulnerable to the actions of the organisation (McKnight & Chervany, 2002:36).

The digital age is characterised by an information overflow, making it difficult for individuals to pay careful attention to everything happening in their world, increasing the complexity that they have to deal with and therefore increasing their need to find 'mental shortcuts'. Trust can be considered as such a mental shortcut, since it serves as a means to reduce social complexity and information (Bachmann, 2006:395; Einwiller & Will, 2001:5; Luhmann, 1979:8; Mishra, 1996:281).

9.2.3 Acting on the belief to trust the organisation, for or against

Corporate trust is also associated with the willing cooperation of stakeholders with the organisation, in which mutual benefit to the parties resulting from that cooperation is assumed (Hosmer, 1995:390; Kramer *et al*., 1996:371; Swift, 2001:20). As such, it is regarded as imperative for an organisation to create the level of familiarity with its stakeholders that will allow them assurance to act on their decision to trust and support the organisation.

In this study the nature of corporate trust is then also conceptualised as consisting of more than just an expectation, belief or decision about a for-profit organisation. The dimension of trust as a behavioural manifestation is believed to form an integral part of corporate trust (Dietz & Den Hartog, 2006:558; McEvily *et al*., 2008:559). It is the presence of this fundamental dimension in particular that links closely with the concept of corporate sustainability, in that stakeholders can act on supporting the for-profit organisation that they trust, or they can act against an organisation if they lose their trust in it; either passively and indirectly (by withdrawing their support) or directly (by actively taking actions to influence others against the organisation).

People today, as never before, "… care about the corporation behind the soft drink; the bank account; the computer. They do not separate their opinions about the company from their opinions of that company's products and services – or its stock, for that matter." (Iwata, 2009:2). Rangan (2011:6-7) refers to "… the rise of new ideas", which include issues such as meeting the needs of the bottom of the pyramid, gender disparity, inclusiveness, the identification of different stakeholders and ethical treatment, all of which have at their core the notion of fairness.

During the first decade of the new millennium it has become quite clear that a fundamental shift has taken place in the world over the past years – one that has had an impact on the nature and status of organisations and of business itself (Iwata, 2009:1). Today's society no longer accepts that 'the business of business is business'[2], but instead demands of for-profit organisations to be socially responsible corporate citizens that "… embrace the economic, legal, ethical and discretionary expectations of all stakeholders, not only financial shareholders" (Bansal, 2005:199).

Furthermore, due to new technology and social media, stakeholders today have an unprecedented view of a for-profit organisation's behaviour and performance in all areas (Iwata, 2009:2), as well as the power and means for mass communication to mobilise others to take action against a for-profit organisation whose behaviour is viewed by its stakeholders as unethical or irresponsible (Pharoah, 2003:48).

Hardin (2002:12) observes that for trust to be relevant there needs to be the possibility of exit, betrayal or defection by the trustor. This signifies that an element of social control is built into any trust relationship; also, and with significant impact, in a corporate trust context.

A for-profit organisation that wants to accumulate trust as a kind of social capital to open up additional and novel opportunities for more extensive action in the relationships with its respective stakeholders, must then accept that this is only possible when it commits itself to a consistently trustworthy self-presentation (Luhmann, 1979:64; Nooteboom, 2002:147; Wood, 2002:63).

[2] *This phrase is widely attributed to Milton Friedman, cited in 'Capitalism and Freedom'.*

This study then contends that if a for-profit organisation does not act in a trustworthy manner, or if it is caught in the act of deception and exposed as a fraud, its stakeholders *will* withdraw their support from the organisation (Gillespie & Dietz, 2009:127). The trust relationship between the for-profit organisation (as trustee) and its stakeholders (as trustors) is therefore seen to be critical for the long-term economic sustainability of the organisation in this study (King, 2009:10).

9.2.4 <u>Expectation of moral duty in the organisation's behaviour</u>

A fourth key element of corporate trust is that it also involves an expectation of a moral element in the for-profit organisation's intent and behaviour. Much of the existent literature highlights the power of the private sector in modern society, as is evident from its ability to act as the dominant engine of growth and value creation as well as a force that can cause damage to the natural environment and society at large (Adams, 2006:13; Jamali, 2006:810; Moss Kanter, 2011:68). This study supports the view that the private sector has the capability to drive changes in society and the environment.

Furthermore, it is held that since it is possible for the private sector to contribute to equitable and sustainable economic growth and opportunity for all, without putting more pressure on the earth's dwindling resources (Adams, 2006:13; Jamali, 2006:810), it has an ethical obligation to do so. As a for-profit organisation is in a position of power, corporate trust is also seen to be based on an underlying assumption of an implicit moral duty on the part of the organisation (Hosmer, 1995:379).

Within the framework of responsible corporate citizenship as posited in this study (King, 2009:10; Marsden & Andriof, 1998:336-339), the concept of corporate trust is regarded as imperative not only in direct commercial transactions, but also in the relationships it has with *all* its stakeholders, which are determined and influenced by the manner in which the organisation conducts its overall operations.

Since stakeholders as trustors cannot always directly monitor or control the decisions or actions of the for-profit organisation as trustee, and since this increases their vulnerability to the actions of the organisation, there is an implied moral duty on the part of the for-profit organisation as the trustee not to abuse the trust of its stakeholders (Greenwood & Van Buren lll, 2010:426; McKnight & Chervany, 2002:45; Ratnasingham, 1998:313-314; Sichtmann, 2007:1001).

9.2.5 Mutual vulnerability and a duty to protect stakeholders' interests

The assumption of an acknowledged duty on the part of a for-profit organisation to protect the rights and interests of all its stakeholders, is regarded not merely as a negative promise not to harm the interests of its stakeholders, but rather as "… a positive guarantee that the rights and interests of the other party will be included in the final outcome" (Hosmer, 1995:392). It is on the basis of this that corporate trust is earned (Fukuyama, 1995:26; Hosmer, 1995:391).

As such, a for-profit organisation that wants to realise the benefits resulting from the voluntary cooperation of its stakeholders (Hosmer, 1995:390; Swift, 2001:20) needs to recognise and accept that it is dependent on the willing cooperation and support of its stakeholders to make the commercial relationship or transaction work to the mutual benefit of both parties (Kramer *et al*., 1996:384; McKnight & Chervany, 2002:36; McPhee & Zaug, 2001:581; Swift, 2001:19).

In short, there is reason to believe that corporate trust can only blossom in favourable social conditions. Moreover, when people trust and cooperate, but their cooperation is not reciprocated, they will quickly switch to a competitive strategy (Stout & Blair, 2001:55).

Trust, it appears, is neither gullibility nor pure selflessness, and when abused, it tends to disappear, as social dilemma experiments illustrate. However, when trust is not abused, it "… permits patterns of reciprocal, other-regarding behavior to spring up that are impossible to explain under neoclassical assumptions of selfish rationality" (Stout & Blair, 2001:55). More important and relevant to corporate trust, however, is that this behaviour allows individuals in groups to achieve outcomes that are far superior, on both a group and an individual basis, to the outcomes that can be achieved through a rational self-centred approach (Stout & Blair, 2001:55).

According to Luhmann (1979:61), systems (for-profit organisations) that are able to acknowledge that the trust they have in their environment is a problem to be grappled with, and are able to deal with it, "… are more elastic, more complex and more durable".

It is held that a for-profit organisation that recognises its own vulnerability and dependence on the support of its stakeholders will want to honour and act on its moral duty to protect the rights and interests of all of its stakeholders in addition to its own (Hosmer, 1995:392).

As a system, a for-profit organisation that chooses to build its reputation founded on a value-based identity (Pirson & Malhotra, 2008:10; Vanneste *et al*., 2011:23) and so increase trust in itself in order to reap the benefits, will do well to keep in mind that all self-presentation entails an obligation. This is related to its moral duty and responsibility to remain true to the identity and character it claims and shows itself to have; and not to risk losing its integrity by behaving in a manner inconsistent with its claimed identity and values (Luhmann, 1979:62-63).

It is critical that a for-profit organisation should keep in mind that individuals do not trust naively. Blois (1999:200) notes that people seldom extend 'blanket' or unlimited trust to others. Kramer (2010:92-93) uses the term 'hedges' to explain this phenomenon, which he describes as "… psychological devices, (that) are interesting because they imply an attitude that is somewhat equivocal: one trusts the other, but not completely". As such, stakeholders will start the trust development process by putting their trust in a for-profit organisation, but discerningly so.

Stakeholders as 'vigilant social auditors' (Kramer, 2010:93) and as the 'ultimate compliance officers' (King, 2009:9) pay considerable attention to cues indicative of the for-profit organisation's trustworthiness or lack of trustworthiness. While some cues will reassure the stakeholders that trust in the organisation makes sense, other cues will activate concerns regarding the organisation's trustworthiness. Thus, only if stakeholders' trust is reinforced or reciprocated by the for-profit organisation's subsequent trustworthy behaviour, will it become self-reinforcing.

10 NATURE OF CORPORATE TRUST

The explanation of corporate trust as a higher-level form of collective trust serves as basis for the assumption that a for-profit organisation as a system can *choose* to foster and build trust in itself (Wicks *et al.,* 1999:99; Mitchell, 2001:113), and that it is *able* to do so through how it chooses to present itself to, and behave towards, all its stakeholders; by institutionalising its own beliefs, rules, values, cultural symbols and communication and displaying the ability of its employees as well as its benevolence, integrity and ethical behaviour as traits of trustworthiness.

Luhmann (1979:62) contends that the basis of all trust "… is the presentation of the individual self as a social identity which builds itself up through interaction and which corresponds to its environment". Since an organisation is a system that is a part of social life, it can establish and build its identity, reputation and trust by incorporating the expectations and values of its stakeholders into its self-presentation (Pirson & Malhotra, 2008:10; Vanneste *et al*., 2011:23), and by making its self-presentation more conscious and adjustable to more complex conditions. In doing so, it is important to keep the essential characteristics of corporate trust in mind.

10.1 CHARACTERISTICS OF THE NATURE OF CORPORATE TRUST

10.1.1 <u>Symbiotic, adaptive and complex corporate trust</u>

The first key characteristic of trust is that it is highly symbiotic in nature: trust engenders trust, just as distrust (also called mistrust) engenders distrust (Nooteboom, 2002:38). As such, corporate trust can be described as a self-fulfilling prophecy, meaning that it grows in an upward spiral effect the more it is employed (Pirson, 2009:21).

Trust is also adaptive, in that it is based on and can therefore be influenced by direct experience with and indirect information about the organisation's commitment to the relationship with the stakeholders (Nooteboom, 2002:175). Furthermore, corporate trust is also complex (Nooteboom, 2002:2,7) because it cannot only be dealt with on a rational level. Since it is also influenced by psychological and epistemic needs and challenges, corporate trust has several dimensions and entails a complex of meanings and conditions (Nooteboom, 2002:7).

In reporting on their research regarding trust in organisational authorities, Tyler and Degoey (1996:349) conclude with the following key points: that trust is an important concept in an organisational setting, since it influences organisational behaviour, and that previous research, which had defined trust as *rational, calculative probability judgements* (instead of acknowledging it in terms of its benevolent intentions), "… has at least been oversimplified and potentially misguided". Kramer *et al*. (1996:384) also suggest that there is more to trust than meets the eye, therefore they emphasise that all decisions about trust involve, at least to some degree, a form of calculation and agree that existent calculative conceptions of trust are incomplete conceptualisations. As such, they believe that the social bases of trust should be made more explicit.

The relational, identity-based character of trust signifies that it is difficult to build trust in the short term. Identification with an organisation as well as the development of corporate trust takes time (Tyler & Degoey, 1996:345). However, the irony is while it takes a long time to engender corporate trust in this sense, it can be lost almost overnight. In order to highlight just how quickly trust can be lost, Nooteboom (2002:124) uses the adage that "… [corporate] trust comes on foot but leaves on horseback".

10.1.2 <u>Fragile and robust corporate trust</u>

Trust is frequently described as 'fragile' in existent literature (Bachmann, 2006:399), but paradoxically it has also been described as 'robust', in that it can progress and develop more fully over time (McKnight *et al*., 1998:482). The term fragile trust is typically used in a situation where a high trust level suddenly decreases, although it can also be used to apply to a situation where a low level of trust increases. Regardless of whether trust decreases from a high level or increases from a low level, fragile trust is generally characterised as being unstable, quickly changeable, or easily influenced (McKnight *et al*., 1998:482). McKnight and Chervany (2006:43) also argue that initial trust is fragile because it is a function of conditions extrinsic to the trustee, such as reputations, sanctions, roles and norms.

Robust trust on the other hand refers to a level of trusting intention that does not change dramatically during a given time frame (McKnight *et al*., 1998:482). This is due to belief confirmation mechanisms that "… cause one to reinforce early impressions by ignoring or rationalizing contrary evidence about the trustee" (McKnight & Chervany, 2006:32). Robust trust refers to trust that develops gradually and is based on affect toward the trustee that develops over the course of an interaction cycle. Since small breaches in trust are ignored in these instances, the trust can be characterised as resilient (McKnight & Chervany, 2006:43).

It is regarded as important to have a clearer understanding of this contrary nature of trust, particularly in a corporate environment, primarily because it is held that trust is a decisive factor for the long-term economic success of an organisation. As such, trust is regarded as essential, since it builds and supports long-term relationships between the organisation and its stakeholder groups and "… generates supportive behavior while preventing unsupportive behavior" (Ingenhoff & Sommer, 2010:339).

10.1.3 Optimal level of corporate trust

While trust can fulfil a significantly functional role in organisational relationships, it should be noted at this stage that it is possible for an organisation to either over- or under-invest in trust. The concept of 'optimal trust', as theorised by Wicks *et al*. (1999:99), therefore needs to be supported.

According to Wicks *et al*. (1999:99), an over-investment of trust is present when an organisation places too much trust in an individual or group, or invests too much in developing a trusting relationship that offers little value for the organisation's performance. It then stands to reason that an under-investment would include elements of too little trust, or insufficient investment in creating trusting relationships that are of significant value and importance to the organisation.

As a proposed solution, Wicks *et al*. (1999:103) suggest the term 'optimal trust', which they hold exists "… when one creates (and maintains) prudent economic relationships biased by a willingness to trust". This means that an organisation should have stable and ongoing commitments to trust, grounded in a belief in moral character, but should also apply trust cautiously, and carefully decide whom to trust, to what extent and in which capacity. An optimal trust level is then determined by the context, the trustworthiness of the trustee and broader norms regarding trust.

10.1.4 Trust as both a moral quality and an economic benefit

Wicks *et al*. (1999:103) take care to highlight that their view of the 'optimal trust' concept should not in any way be seen as an endorsement of unrestrained greed or opportunism, but rather be understood as a view where "… prudence presupposes a moral foundation and moral constraints – it is driven by a broader sense of the term *self-interest* (i.e. particularly the desire for community and the respect of others) and shaped by an array of moral concerns (e.g. fairness, decency, and respect)".

According to Wicks *et al*. (1999:102), trust is morally desirable and as such they make the link between trust and ethics. As these authors observe, though they found no specific discussion of trust in Aristotle's writings, their notion of optimal trust naturally fits within his ethical thought.

11 ANTECEDENTS OF TRUST IN A CORPORATE CONTEXT

The preceding discussion has set out to delineate the critical role of stakeholders' trust in ensuring the long-term economic success of an organisation (Ingenhoff & Sommer, 2010:339). The key elements and nature of corporate trust have been outlined and it is pragmatic to now turn the focus to what a for-profit organisation needs to do to accomplish trust. While it is not possible for an organisation to make a stakeholder trust it, it is possible to demonstrate its trustworthiness to its stakeholders, which may then make it possible for them to trust the organisation.

As such, this study conceptualises trustworthiness as the key driver of corporate trust, and identify seven key areas in which an organisation should display its trustworthiness. These seven trustworthy behaviours as the antecedents of trust and the relationship between them are now briefly discussed.

11.1 TRUSTWORTHY BEHAVIOURAL ANTECEDENTS OF CORPORATE TRUST

As a point of departure, it is important to understand the key antecedents of trust. King lll (2009:100) recommends that directors should manage and measure the gap between the performance of the organisation and stakeholders' perceptions. In order to develop a valid measure to determine this gap, it is essential to identify the antecedents of trust in a corporate context and include these in the measure to be developed in this study.

Many studies highlight ability, benevolence and integrity as antecedents of trust and use these three factors to explain how they collectively represent the organisation's perceived trustworthiness (Gillespie & Dietz, 2009:128; Greenwood & Van Buren lll, 2010:428; Ingenhoff & Sommer, 2010:341; Mayer *et al*., 1995:717; Rodgers, 2009:84; Schoorman *et al*., 2007:345, Williams, 2001:379).

Some literature proposes reliability, as it relates to consistency and regularity of behaviour, as a fourth antecedent of trust (Dietz & Den Hartog, 2006:560; Pirson, 2009:7). However, since one can consistently and regularly behave in a dishonest or distrustful manner (i.e. one can be relied on to display the same dishonest behaviour), this study presumes that reliability is rather an attribute inherent in all the key antecedents of trust. While it is accepted that there may be different views, ability, benevolence and integrity are regarded as key antecedents of trust, in addition to the new antecedents proposed by this study.

These three antecedents are then used in this study, but the antecedent of integrity is more narrowly defined as *related to the consistent honouring of the organisation's word*. The moral element that is usually incorporated in a definition of integrity is presented separately as a new antecedent, termed *ethical behaviour*.

In addition, two new cognitive antecedents are proposed, namely identification and transparency, as well as one affect-based antecedent, namely emotional attraction. These seven key antecedents of trust are presented in Figure 6 at the end of the discussion of each antecedent that follows presently.

After the discussion of each of these factors, it is also essential to explore the relationship between these antecedents. Trust is multi-dimensional, complex and difficult to manage, and in order to fully realise the value being invested in trust-building initiatives, or avoid inadvertently destroying trust with an ill-advised initiative, it is important for the leadership of a for-profit organisation to know on which dimension to focus. “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?” (Pirson & Malhotra, 2008:3-4). This section is concluded with a discussion of the relationship between these antecedents in an endeavour to provide an answer to these questions.

11.1.1 Ability

Ability as an antecedent of trust is defined by this researcher as *the for-profit organisation’s capacity to undertake the task required – applying its collective set of skills, competencies and characteristics, such as expertise, reliability and attention to detail – that enable the organisation to function progressively and meet its goals and responsibilities effectively, because it is technically competent to fulfil its specific role* (Gillespie & Dietz, 2009:128; Greenwood & Van Buren lll, 2010:428; Hardin, 2002:8; Hosmer, 1995:382; Ingenhoff & Sommer, 2010:343; Kramer, 2010:89; Mayer *et al*., 1995:717, Pirson, 2009:7; Rodgers, 2009:84; Walsh & Wiedmann, 2004:307).

Stakeholders’ perceptions about a for-profit organisation’s ability can be influenced by issues such as its economic success; its quality of products; the qualifications, technical skills and expertise of its employees in delivering a service; its experience in its market; as well as the ability to effectively use its resources and capabilities to deliver a promised result to a stakeholder (Greenwood & Van Buren lll, 2010:428; Ingenhoff & Sommer, 2010:343; Sichtmann, 2007:1011).

However, Pirson and Malhotra (2008:11-12) also highlight that the ‘right’ kind of competence matters, that “… the kind of know-how demanded by stakeholders differs”. They note that their research has shown that employees and investors mostly look for evidence of managerial competence, for the ability to effectively control costs and lead a workforce in the effort to stay competitive and create value. Conversely, external stakeholders, such as customers and suppliers, typically care much more about the organisation's technical competence, about its ability to produce goods and services of high quality and deal effectively with the supply chain (Jones, 2007:30).

11.1.2 <u>Benevolence</u>

Benevolence as an antecedent of trust is defined by this researcher as *the for-profit organisation's collective and consistent behaviour indicating genuine care and concern for the well-being of all its stakeholders, aside from an egocentric profit motive.* An organisation's benevolence can be evident from its actions, which reveal its orientation towards its stakeholders (Gillespie & Dietz, 2009:128; Greenwood & Van Buren lll, 2010:428; Ingenhoff & Sommer, 2010:343; Kramer, 2010:93; Mayer *et al*., 1995:718; Pirson, 2009:8; Rodgers, 2009:84; Schoorman *et al*., 2007:345; Walsh & Wiedmann, 2004:307). Mishra (1996:267) describes this as an organisation's ability to balance its self-interest with interest in the welfare of others.

This definition of the benevolence factor supports the view held by King lll (2009:13), which prescribes an inclusive stakeholder approach and emphasises that an organisation needs to consider the interests and perceptions of all its stakeholders, and not just of its shareholders (Bandsuch *et al*., 2008:102-103).

Stakeholders' perceptions about an organisation's benevolence can be influenced by issues such as its social responsibility activities, its extensive public communication about corporate activities, and could even be derived from the organisation's intentions and motivations based on certain decisions they make (Ingenhoff & Sommer, 2010:343). In this study benevolence is closely associated with a for-profit organisation's role as a responsible corporate citizen, including its CSR and CSI activities, but also with its responsibility towards ordinary citizens.

Pirson and Malhotra (2008:8) note that for stakeholders who are familiar with an organisation and engage with the organisation on a regular basis (the authors label these stakeholders as 'high intensity stakeholders'), benevolence towards the individual is critical, in other words the stakeholders need to perceive that the organisation cares about individuals' well-being. These authors refer to cases where organisations had to issue voluntary recalls, which either resulted in causing irreparable damage to consumer trust or in causing no damage at all (or in some cases, even enhanced consumer trust). They note that the one distinguishing factor between high-integrity organisations that destroy trust and high-integrity organisations that salvage or build trust, is the degree to which the organisation signalled a concern for the well-being of its individual consumers.

11.1.3 Integrity

Integrity is accepted as a key antecedent of trust in much of the existent literature, and it is usually defined as a for-profit organisation's actions or code of conduct that indicates consistent adherence to a set of moral principles and ethical behavioural standards or values the stakeholders find worthy and acceptable (Gillespie & Dietz, 2009:128; Greenwood & Van Buren III, 2010:428; Ingenhoff & Sommer, 2010:343; Mayer *et al*., 1995:719; Paine, 1994:109; Pirson, 2009:8; Wicks *et al*., 1999:111).

However, this study views integrity differently, specifically in line with the view offered by Erhard, Jensen and Zaffron (2009:2), who present a positive model of integrity devoid of any normative content. By placing integrity in a distinct and separate domain, these authors clearly distinguish it from morality, ethics and legality, which are held to exist in a normative realm of virtues (that is, they are about good and bad, right and wrong, or what should or should not be). The domain of integrity, on the other hand, is characterised as "… the objective state or condition of an object, system, person, group, or organizational entity".

As such, Erhard *et al.* (2009:2) define integrity as a state or condition of being whole, complete, unbroken, unimpaired, sound, in perfect condition, and they maintain that integrity (the condition of being whole and complete) "… is a necessary condition for workability, and that the resultant level of workability determines the available opportunity for … superior performance, no matter how one defines performance". Similarly, Goodpaster (2007:23) defines integrity as "… a kind of wholeness or balance".

Essentially, integrity in this context means that a for-profit organisation's word, which consists of what is said among the people in that organisation, and what is said by or on behalf of the group or organisation, is whole and complete. Rodgers (2009:84) offers a similar view of integrity, when he refers to it as a "… belief that a person will be committed to getting the job done", and as the extent to which one's actions are congruent with one's words (Mishra, 1996:268).

Integrity is then defined by this researcher as *the level of congruence between the organisation's words and actions; its ability to consistently honour its word*. It is argued that an organisation displays integrity when it consistently honours its word, delivers on its promises and does what it has undertaken to do, or communicates with those who were counting on the organisation to keep its word as soon as it knows that it will not be able to do so, for whatever reason, and then takes steps of reparation. Erhard *et al*. (2009:2) refer to this as the need to "… clean up any mess you caused by not keeping your word". In this aspect, there is a close link with the earlier discussion of benevolence, where the concern for the well-being of individual stakeholders was highlighted as important, particularly when the organisation has been at fault.

Consistent or reliable behaviour in and of itself is insufficient to establish integrity and trust, since an organisation may consistently act in a self-serving manner. It is for this reason that Pirson's suggestion to include reliability as a key antecedent for trust is not accepted by this study. However, consistently displaying behaviour congruent with the values and principles that it promotes as being part of its identity and its stakeholders find worthy and acceptable, helps the organisation to establish an identity and reputation of integrity and as such integrity, rather than reliability, is seen to be a key antecedent of trust (Greenwood & Van Buren lll, 2010:428; Mayer *et al*., 1995:719-720).

This last point is similar to what Pirson (2009:7) notes: "Consistency and congruency between words and actions build trust across stakeholder groups, inconsistencies and incongruence diminish trust." It is therefore held that the route to create whole and complete social and working relationships lies in an organisation that honours its word, in other words one that consistently acts with integrity, and that this provides a pathway to earning the trust of stakeholders which can be actioned (Erhard *et al*., 2009:2).

Stakeholder perceptions about an organisation's integrity can be influenced by issues such as credible communications about the organisation from other parties and the extent to which the organisation's actions are congruent with its own communication (Ingenhoff & Sommer, 2010:343; Mayer *et al*., 1995:719).

This study, where the focus is placed on the importance of trust and trustworthiness, on the alignment between what an organisation says and how it behaves, supports the description of integrity by Erhard *et al*. (2009:2). However, even though integrity, defined as *honouring its word*, is regarded as a key antecedent of corporate trust, the ethical behaviour of an organisation is also regarded as key, and as such a new antecedent is proposed, one that incorporates the moral element that is highlighted in much of the existent literature as being part of integrity, but is incorporated into ethical behaviour as a new antecedent.

11.1.4 Ethical behaviour

Ethical behaviour as an additional key antecedent of trust then means a for-profit organisation's consistent behaviour and adherence to a set of moral principles and ethical behavioural standards (including legal compliance and procedural fairness) or values that the stakeholders find worthy and acceptable within the wider societal context (Gillespie & Dietz, 2009:128; Greenwood & Van Buren lll, 2010:428; Igenhoff & Sommer, 2010:343; Jones, 2007:42,188; Mayer *et al*., 1995:719; Paine, 1994:108; Pirson, 2009:8; Wicks *et al*., 1999:111), which is usually incorporated into the definition of integrity in much of the existent literature.

Ethical traits that are commonly described as character, honesty, law-abiding behaviour, moral thought and action, a strong sense of justice or authenticity constitute an important factor of trust (Paine, 1994:106; Pirson, 2009:8). The inclusion of ethical behaviour as an additional antecedent is in line with the argument made by Greenwood and Van Buren lll (2010:436), who note Bailey's suggestion that the concept of corporate trustworthiness be extended to go beyond ability, benevolence and integrity, to include reliance on a for-profit organisation to take responsibility for how its position or role affects the lives of its stakeholders.

Greenwood and Van Buren lll (2010:429) accept Bailey's suggestion and note that such a conceptualisation of trustworthiness might then support the principle of fairness which suggests that duties attach when a corporation accepts benefits from a stakeholder. It is not sufficient for an organisation that is considered trustworthy to only demonstrate ability, benevolence and integrity to trusting stakeholders. Greenwood and Van Buren lll (2010:436) hold that in the case of organisational-stakeholder relations, the stakeholders' decision to trust, based on the organisation's claim to be trustworthy, places rigorous moral demands on that organisation to be worthy of the trust its stakeholders bestow on it, which means that the organisation should take explicit responsibility for the consideration of stakeholders' needs and interests.

Ethical behaviour as a key antecedent of corporate trust is then defined by this researcher to refer to *the set of moral principles or values, the guiding philosophy and standards that a for-profit organisation has and uses to direct its commercial activity, decision-making, actions and business operations, to ensure that it acts fairly, honestly and responsibly towards all its stakeholders in everything it does* (Cacioppe *et al*., 2008:682; Cartwright & Craig, 2006:743; Jones, 2007:188; Kapstein, 2001:117; Murphy, 2005:183; Wood, 2002:63).

While this antecedent includes the compatibility of the stakeholders' beliefs and values with the organisation's cultural values and behaviour, it is also a wider construct (Gillespie & Dietz, 2009:128; Greenwood & Van Buren lll, 2010:428; Ingenhoff & Sommer, 2010:343; Jones, 2007:43; Mayer *et al*., 1995:719; Pirson, 2009:8; Wicks *et al*., 1999:111), in that stakeholders can trust the organisation to place the interests of its stakeholders before the interests of the organisation in certain situations and in unforeseen circumstances, when it is morally the right thing to do so (Hosmer, 1995:383; Marsden & Andriof, 1998:338), because the ethical framework has become the governing ethos of the organisation (Paine, 1994:106).

It is posited that a for-profit organisation that bases its set of values on a strong ethical foundation will be able to create a trustworthy organisation, since it can translate its values into behavioural commitments, principles and behavioural directives, such as standards, norms and guidelines (Jones, 2007:188; King, 2009:26,119), which can then be used to guide, monitor, manage and reward the ideal behaviour.

Ethical behaviour is regarded to form an important part of the social contract that an organisation is subject to, a contract that provides the bond between the organisation and its stakeholders, and therefore gives the organisation the licence to operate (Fombrun & Foss, 2004:288). It is held that an organisation that violates its social contract in ethical respects will lose the trust and support of its stakeholders (Jones, 2007:42-43).

From a corporate sustainability perspective, it is then held that the consideration of corporate ethics should lie at the core of an organisation's goals, decision-making and behaviour, as it adopts a proactive ethical stance, instead of mere compliance (Cartwright & Craig, 2006:743; Ethics Resource Center, 2009; Jones, 2007:43,197; Paine, 1994:108; Swift, 2001:19).

11.1.5 Identification

Another proposed antecedent of corporate trust is identification (Pirson, 2009:8-9; Vanneste *et al*., 2011:23). This study contends that identification as an antecedent of trust includes, but is greater than, the concepts of general familiarity and similarity, which allow stakeholder identification with an organisation. Luhmann observes that familiarity is a precondition for trust (Luhmann, 1979:19), since one cannot trust what one does not know.

Trust in a corporate context provides a larger and more complex setting for trust, one that requires a less individuated, more impersonal and more indirect form of trust (Kramer, 2010:84; Mitchell, 2001:120). Trust in an organisation as a system is also more guarded and restrained (Luhmann, 1979:39), because the stakeholders are not familiar with the organisation.

Nooteboom (2002:141) uses 'reputation' instead of familiarity, when he notes that when "… the evidence of trustworthiness is limited, for a given partner, and there is no reputation [to be used] as a basis of trust, the default one takes is based on previous experience with other people". Fombrun and Van Riel (2004:51) refer to visibility as a precursor to reputation, since people need specific criteria to evaluate an organisation.

It is then posited that based on the need to create a sense of familiarity, a reputation is a prerequisite for corporate trust, but only when the familiarity or reputation is also related to the ethical values that the organisation espouses, in other words it needs to be related to who the organisation is and what it stands for, its identity and the reputation that it wants to be known for (Lewis & Weigert, 2008:161; Möllering, 2006:367; Pirson & Malhotra, 2008:10).

According to Jones (2007:47), ethical laws and rules "… emerge to control self-interested behavior by individuals and organizations that threatens society's collective interests". Since ethics increase the value that can be produced by people when they interact with each other, it protects people. Jones (2007:48) further observes that behaviour that follows accepted ethical rules confers a reputation effect on the organisation, which over time will lead to a good corporate reputation, "… which is valuable because people will want to deal with that organization".

This will help to ensure that stakeholders can feel safe and assured about the prospect of depending on the for-profit organisation, and trust it enough to make themselves vulnerable to the actions of the organisation. In particular, if stakeholders were to observe similarities between their sense of identity and values and the identity and values of the organisation, they would be able to identify more with the organisation (Jones, 2007:187). Parkhe (in Pirson, 2009:8) states that being similar leads to attraction and evokes positive attitudes.

This is in line with the literature on social identity, which holds that identity fosters trust, and that trust also helps to strengthen identity (Lewicki & Bunker, 1996:123). Identification-based trust is regarded as a form of trust that is deeper and more sustainable than the initial forms of calculus-based and knowledge-based trust (Friedman & Miles, 2006:71; Lewicki & Bunker, 1996:124; McEvily *et al*., 2008:564; Möllering, 2006:367). It refers to that stage where the organisation and its stakeholders have come to know each other so well that they can begin to identify strongly with the other party's values, needs, preferences and priorities. At the stage where identification increases and a shared identity is developed, the strength of commitment also expands (Lewicki & Bunker, 1996:123; McEvily *et al*., 2008:564).

As a key antecedent of trust, identification then includes the concepts of familiarity and similarity, but is specifically defined by this researcher to mean *a familiarity, similarity and identification with the values of the for-profit organisation, as its core identity and character* (Burke, 2011:152; Murray & White, 2005:350; Pirson, 2009:8; Vanneste *et al*., 2011:23).

An organisation can develop and institutionalise its own rules, values, cultural symbols and communication with its internal and external stakeholders, and can present and make its value system and what it stands for visible to its stakeholders through its reputation-building activities (Moss Kanter, 2011:71).

This study therefore contends that a corporate reputation that is built on the organisation's core value-based identity, one that incorporates the values and needs of its stakeholders as well, will allow its stakeholders an opportunity to identify strongly with that which the organisation stands for. In doing so, it will establish a more enduring sense of familiarity, similarity and stakeholder-identification.

An increase in how well stakeholders identify with an organisation will lead to an increase in trust and therefore to an increase in more positive support from those stakeholders. Pirson (2009:9) holds that with "… deep identification, organization trust and organizational effectiveness prosper". Vanneste *et al*. (2011:23) note that identification is a mechanism that can only lead to an increase in trust over time, not to a decrease. This view of identification makes a clear link with the role that corporate reputation fulfils.

Identification as an antecedent of corporate trust in this study then relates especially to value congruence, to shared goals, values, norms and beliefs. Perceived value congruence is important for all stakeholders, even though it matters most to employees, who are closest to the organisation. Stakeholders of all types are interested in identifying with organisations with whom they can perceive a match in values (Pirson & Malhotra, 2008:10).

It is therefore held that a for-profit organisation has to adopt a value-based identity and character congruent with the values of its stakeholders, and then make that identity and those values known to its stakeholders through its reputation-building activities. In this regard, the existent literature that positions corporate reputation as an antecedent of trust is supported (Blois, 1999:200; Einwiller, 2003:197; Ingenhoff & Sommer, 2010:341; Lewis & Weigert, 2008:161; Möllering, 2006:367; Rangan, 2011:4; Swift, 2001:22).

11.1.6 Transparency

Transparency is defined by this researcher to mean *the extent to which a for-profit organisation is actively open and transparent about its operations and what it stands for, by sharing relevant information with and not withholding relevant information from its stakeholders, guided by a culture of ethical governance in the organisation and in line with its inclusive stakeholder governance approach* (Bandsuch *et al*., 2008:113; Fombrun & Van Riel, 2004:188; Pirson, 2009:8; Turnbull, 2002:25,33).

Many authors view transparency and openness as a key antecedent of corporate trust, especially after the wave of international corporate social scandals in the wake of Enron, which has revealed the pervasiveness of serious forms of ethical and social misconduct in business and has led to a crisis of corporate trust (Brammer & Pavelin, 2004:704; Cacioppe *et al*., 2008:681; Eccles *et al*., 2006:353; Fombrun & Foss, 2004:284; Fombrun & Van Riel, 2004:94,188; Jones, 2007:20; Pirson, 2009:5; Pharoah, 2003:46; Uslaner, 2010:111). Transparency describes the extent to which relevant information is not withheld (Pirson, 2009:8).

In his book *A new way to govern organisations and society after Enron*, Turnbull (2002) observes that "… top-down 'command and control' hierarchies, the organisational model which is virtually synonymous with capitalism in the English-speaking world, have outlived their usefulness". He ascribes this to the fact that these organisations seem to be incapable of coping with complexity or human diversity or of regulating themselves, and that their centralised power structures make them vulnerable to corruption. As such, he calls for a "… new breed of ecological organisation", one that includes decentralised decision-making and involves stakeholders in self-regulation.

Turnbull (2002:25) observes that "… transparency and accountability together are powerful disincentives to exploitation", but observes that it needs to be entrenched in the culture of the organisation. An organisation that wants to transform stakeholder involvement from, "… as it were, a voice, to a fuller role in network governance" needs to be committed to the principle of transparency (Turnbull, 2002:34).

Bandsuch *et al*. (2008:113) also accentuate that transparency engenders trust, which reinforces the ethical governance of the organisation. As such, these authors hold that the organisation will be required "… by public expectation, to be actively transparent, in order to avoid being, and being seen as, an opaque organization".

Increased transparency is required for an inclusive stakeholder governance approach. Turnbull (2002:27,32) refers to research reported in the journal *Management Sciences*, which found that 80% of the ideas for product innovations came from customers, albeit accidentally. An organisation that can harness such stakeholder interest by integrating it formally into its governance framework would therefore increase its efficiency and minimise its risk. Greater transparency will benefit stakeholders with access to information about the organisation, but they will also contribute information to the organisation. If this self-governance proves to work over time, it would also reduce the need for stakeholder protection to come primarily from laws and regulations (Turnbull, 2002:33).

As Fombrun and Van Riel (2004:188) note, "… transparency is not a goal in itself, but a means to an end – the need to increase trust and reduce stakeholder uncertainty about the company". The inclusion of transparency as a key antecedent of trust is thus important, especially with the focus this study places on the need for a for-profit organisation to become an ethical, trustworthy organisation. In this case, an organisation will not have reason to hide anything, and being transparent about its operations, and even about its mistakes, will help it to earn stakeholders' trust and gain full advantage from stakeholders' input.

11.1.7 Emotional attraction as an affective antecedent of trust

While ability, benevolence, integrity, ethical behaviour, identification and transparency are key cognitive antecedents of trust, it is important to note that affective states such as liking or admiration also influence the motivation to trust. If a person likes or admires another, he will be more inclined to approach, interact, form a connection and enter into a relationship with the other party.

Directed affective states can therefore also be regarded as antecedents of trust. According to Williams (2001:387), affective attachments are particularly likely to increase people's motivation to trust because they motivate behaviours that maintain relationships and also invoke people's need to belong, which is a powerful and fundamental motivation.

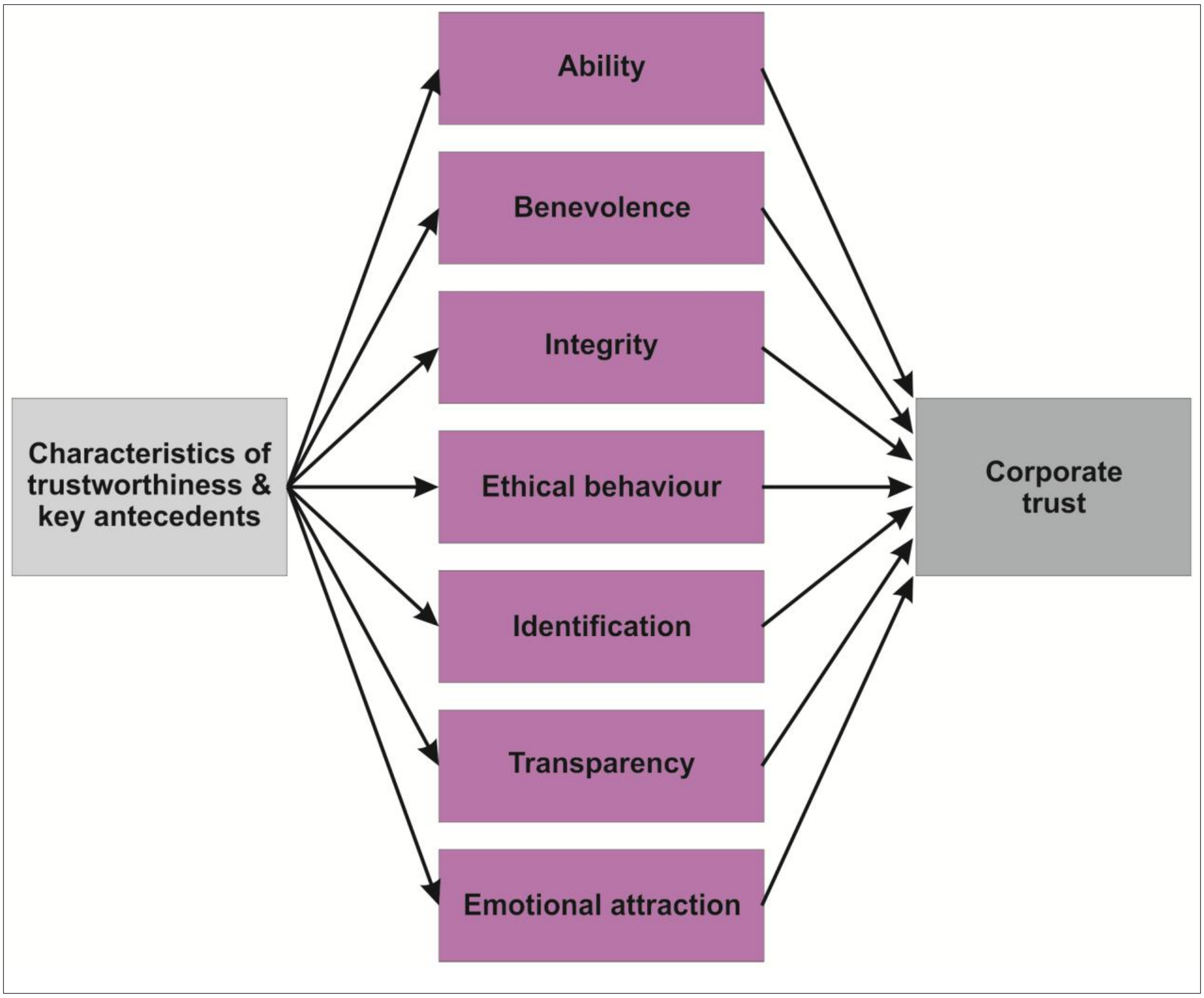
Emotional attraction as a key antecedent of corporate trust is then defined by this researcher to mean *the extent to which an organisation is admired and liked, based on how strongly its identity (its vision, values, behaviour and communication) resonates with its stakeholders' emotions or beliefs.*

It is then also important to keep this in mind when exploring trust development within a corporate context, and ensure that any measurement of trust also sets out to measure the emotional attraction of the organisation, that is the extent to which stakeholders like and admire the organisation, in addition to measuring their perceptions of the cognitive antecedents of trust in the organisation.

The seven key antecedents of trust are presented in Figure 6 (see next page).

Figure 6: Key antecedents of corporate trust

(Researcher's own construct, based on literature reviewed in this study)



11.2 INTERRELATIONSHIP BETWEEN KEY ANTECEDENTS

Although each of the antecedents discussed above is unique and separable, it is important to understand the interrelationship between the key antecedents of trust.

11.2.1 Interrelated and inclusive relationship, existing along a continuum

The first point that needs to be emphasised about the relationship between these key antecedents is that they are interrelated and inclusive of one another (Greenwood & Van Buren lll, 2010:429). Since these factors are not dichotomous, the relationship between them can be seen as one existing along a continuum (Greenwood & Van Buren lll, 2010:429; Mayer *et al*., 1995:721).

Stakeholders' perceptions of the ability, benevolence, integrity, ethical behaviour, identification, transparency and emotional attraction of a for-profit organisation would determine how they evaluate the trustworthiness of the organisation, and this evaluation should be thought of as being along a continuum. Rather than perceiving the organisation (trustee) as either trustworthy or not trustworthy at all, there is a range that can vary from being perceived as highly trustworthy on the one end of the scale to not at all trustworthy on the other end (Mayer *et al*., 1995:721).

If stakeholders perceive all the factors to be high, the organisation would be regarded as being very trustworthy (Greenwood & Van Buren lll, 2010:429; Mayer *et al*., 1995:721). In a situation where all the factors are present, but not all of them are perceived to be high, a meaningful amount of trustworthiness can still be perceived.

However, it is important to note that in a case like this where a stakeholder chooses to make a judgement call about the organisation's trustworthiness even when his perceptions about the ability, benevolence, integrity, ethical behaviour, identification, transparency or emotional attraction of the organisation may not be as high as he would have desired it to be, the stakeholder might be exposed to more vulnerability and risk (Greenwood & Van Buren lll, 2010:429).

11.2.2 All the antecedents need to be present for trustworthiness to exist

While each of these factors can then vary along a continuum, it remains important for all of them to be present, since it is highly unlikely for a perception of trustworthiness to exist in the absence of one of these factors (Greenwood & Van Buren lll, 2010:429). The perceived absence of one of these factors will undermine the stakeholders' trust and overall perception of the organisation (Mayer *et al*., 1995:721; Mishra, 1996:269), since it may raise the question whether the other factors are really present. In a case where stakeholders choose to trust the organisation even though they perceive most of the factors to be absent, their decision would most likely be considered reckless and irresponsible (Greenwood & Van Buren lll, 2010:429).

This highlights the importance of having all the factors present for a perception of trustworthiness to exist. However, the level of the factors need not necessarily be exactly the same. As Mayer *et al*. (1995:721) point out, the simplest case of high trust presumes a high level of all the factors; however, there may be situations in which a meaningful amount of trust can develop with lesser degrees of the different antecedents.

11.2.3 Integrity, ethics more pronounced in unfamiliar circumstances

Integrity and ethical behaviour are the basis for stakeholder trust across the board (Pirson & Malhotra, 2008:11), but these become the most important and significant factors in perceived trustworthiness in a situation where the trustee (organisation) is unknown to the trustor (stakeholder), or where there is no existing relationship between them (Greenwood & Van Buren lll, 2010:429).

On the other hand, where the stakeholder knows the organisation, or as the relationship between them develops, benevolence will become the more salient factor in perceived trustworthiness (Greenwood & Van Buren lll, 2010:429). This is in line with what Pirson and Malhotra found, namely that for high-intensity stakeholders, who are familiar with the organisation, integrity is not enough. These authors hold that these stakeholders also need to perceive that the organisation cares about the individual's well-being: "In other words, benevolence towards the individual, and not just good character, is critical." (Pirson & Malhotra, 2008:7). However, this study holds that a for-profit organisation that wants to ensure its own sustainability will focus on becoming an ethical and responsible corporate citizen in everything it does; that it will be just towards all its stakeholders, and not just those 'closest' to it.

This links with the distinction that Rangan (2009:63) makes between efficiency and justice. He notes that any reasonable person, who is offered a choice between the two values of efficiency and justice, would assign a greater priority to justice, because while efficiency may be valuable and modern, "… justice would seem precious and timeless".

Although Rangan is specifically referring to globalisation as a system, his argument can be applied equally to a for-profit organisation as a system when he says: "If firms disregard the justice principles and focus solely on efficiency, then they are unintentionally making the system (called globalisation) fragile. Systems that are argued to be efficient but are unjust tend not to be sustained (e.g. slavery)." (Rangan, 2009:67).

It is therefore held that a for-profit organisation that wants to continue operating profitably needs to be just, by also honouring its implicit contracts with society (Rangan, 2009:70; Swift, 2001:17), and it needs to operate ethically and with integrity in everything it does. This is where the answer lies to the question of which dimensions a for-profit organisation should focus on: all the antecedents are important, but the antecedents of integrity and ethical behaviour, contextualised within a value-based identity framework, are regarded to be the most critical of them all.

12 BENEFITS OF TRUST IN A CORPORATE CONTEXT

The presence of trust in an organisation, and the perception that it is trustworthy, can have several considerable benefits for an organisation in its day-to-day activities, and in its longer-term business goal to grow and remain economically sustainable.

12.1 DOMINANT PERSPECTIVE OF BENEFITS OF TRUST

The identification of the nature and benefits of trust will generally be determined by the theoretical framework within which the trust construct is conceptualised. As such, the rational choice school will highlight how trusting enhances social transactions; philosophers like Annette Baier will focus on how trust contributes to a good life; sociologists like Francis Fukuyama will emphasise how trust operates in society and how the presence or absence of trust builds or retards economic prosperity; and psychologists like Tom Tyler will outline and aid the understanding of the contexts in which trust can be created and made part of the individual's way of understanding himself and the world (Mitchell, 2001:1-9).

In this study trust is conceptualised as a sociological event, an inter-subjective, multi-dimensional and systemic social reality (Ingenhoff & Sommer, 2010:341; Lewis & Weigert, 2008:158; Wicks *et al*., 1999:101), particularly within an organisational context.

As such, the benefits of corporate trust – or what Kramer (2010:83) refers to as collective trust – are explored.

Much of the existent literature provides evidence that trust has a number of important benefits for a for-profit organisation, such as improved communication, conflict management, negotiation processes, as well as satisfaction and performance levels in the organisation (McEvily *et al*., 2008:557); and it can reduce transaction costs, thereby improving the profitability of the for-profit organisation (Dyer & Chu, 2003:64; Kramer, 2010:94; Mouzas *et al*., 2007:1020). Trust in the leaders can also give the commercial organisation a significant competitive advantage (Schoorman *et al*., 2007:347).

This perspective, namely that the effects of trust are transmitted in a relatively straightforward manner, represents the dominant view to date of the benefits of trust in a corporate context, which is that it results in clear and definite effects such as more positive attitudes, higher levels of cooperation and other forms of workplace behaviour as well as better team processes and performance (Dirks & Ferrin, 2001:450).

However, although this perspective of the direct effects of trust has dominated the literature to date, the outcome of numerous studies that attempted to validate these direct benefits was unsatisfactory, in that many could not provide strong empirical support that the presence of trust, on average, resulted in desirable behaviour (Dirks & Ferrin, 2001:451).

12.2 ALTERNATIVE PERSPECTIVE ON BENEFITS OF TRUST

Another, perhaps less well studied perspective on the benefits of trust, points to the facilitating or enabling effects (rather than direct benefits) of trust. From this perspective, the presence of trust can positively benefit a for-profit organisation because it creates or enhances the conditions under which certain outcomes are likely to occur, such as positive interpretations of the behaviour of another person or an organisation that are favourable to achieving organisational outcomes like cooperation and higher performance (Dirks & Ferrin, 2001:450, McEvily *et al*., 2008:557). Fukuyama (1995:151) describes trust "… as an important lubricant of a social system".

This study conceptualises trust from this alternative perspective, in that it is viewed as an enabling principle that affects organisational life and assists to create or enhance the conditions that enable the organisation to achieve its fundamental purpose (Dirks & Ferrin, 2001:455, McEvily *et al*., 2008:558). Stout and Blair (2001:33) describe trust as "… the glue that holds organizations together. More powerful than contracts or authority, trust enables partner companies – or groups within a company – to achieve results that exceed the sum of the parts".

A for-profit organisation can only achieve its goals, such as increased profit, excellent service delivery, superior quality or a sterling reputation, when the people in the organisation coordinate their efforts and organise their activities to achieve a common goal. The relationship between the employees is therefore characterised by interdependency, since all the people are reliant on others to contribute to the achievement of their own sub-goals in order for them to contribute to achieving the organisational goals (Mayer *et al*., 1995:710).

The fact that these employees do not have complete control over the actions of others, as well as the fact that they have different tasks and responsibilities, disparate interests and goals, and distinctive skills sets and competencies, means that the relationship between the employees is therefore also characterised by uncertainty (McEvily *et al*., 2008:558; Selznick, 1948:25). This interdependence and uncertainty make achieving organisational goals more difficult. The need to manage the interdependence among individuals, units and activities in the face of behavioural uncertainty about the intentions, motives and competencies of all the employees therefore constitutes a key organisational challenge (McEvily *et al*., 2008:558).

This challenge creates the need for an organisational solution (McEvily *et al*., 2008:558). Solutions that rely solely on control and monitoring mechanisms, technology or legalistic remedies to regulate, enforce and/or encourage compliance to avoid the consequences of broken trust are often ineffective, and have been described as weak and impersonal substitutes for trust (Kramer, 1999:591; Mayer *et al*., 1995:710). Paine (1994:108) notes that a compliance approach to ethics overemphasises the threat of detection and punishment, whereas research has shown that obedience to the law is rather influenced by a belief in the moral correctness of the law. Kramer (1999:583) also observes how monitoring systems can actually produce the opposite behaviour to what was originally intended with the systems, such as that it can ironically make employees feel fearful and suspicious rather than trusting.

A main reason why monitoring and surveillance can diminish trust in an organisation is the fact that people's intrinsic motivation may be reduced when they believe that their behaviour is under the control of extrinsic motivators. Such control systems also communicate to employees that the organisation does not trust them, and this can potentially breed mistrust and resentment in return. Employees who feel coerced into complying with certain behaviour may end up resisting the behaviour, and trying to find ways to cheat or sabotage monitoring systems (Cialdini, 1996:56; Kramer, 1999:591).

12.2.1 <u>The indirect benefits of trust</u>

Dirks and Ferrin (2001:456) note that trust can reduce some of the uncertainty and ambiguity connected with workplace behaviours and performance, by moderating or facilitating the effect of primary determinants (or causal factors) on the desired outcome. These authors also hold that the benefits of trust are not transmitted in a direct or straightforward manner (Dirks & Ferrin, 2001:450), but that it rather fosters or inhibits positive outcomes in a relationship through a moderation process. Since trust embodies the accumulated experiences with and knowledge about the other party in a situation involving vulnerability, it represents an understanding of the relationship. Trust therefore fundamentally affects how the trustor assesses the future behaviour or interprets the past actions of the trustee.

According to Pirson (2009:3), trust promotes cooperative behaviour within organisations and among organisational stakeholder groups "… as it fosters commitment, motivation, creativity, innovation, and knowledge transfer". Kramer (2010:83) also highlights the indirect benefits of corporate trust (which he refers to as collective trust) when he remarks on the circular and inherently self-reinforcing nature of this vital relationship, in that "… positive expectations about others facilitate positive behaviors when interacting with them; those behaviors, in turn, strengthen positive expectations; hence, a virtuous cycle in which expectation and action collude to create and reinforce desired outcomes".

Similarly, in their investigation of the relationship between supplier trust in the buyer and transaction costs and information sharing in a sample of 344 exchange relationships between suppliers and automobile manufacturers in the USA, Japan and Korea, Dyer and Chu (2003:57,66) found that trust indirectly leads to certain value-creating behaviours, such as information sharing, which in turn leads to higher levels of trust. Dyer and Chu (2003:66) note that this "… phenomenon makes trust unique as a governance mechanism because the investments that trading partners make to build trust often simultaneously create economic value (beyond minimizing transaction costs) in the exchange relationship".

Trust can then be regarded as a form of social capital that can benefit a for-profit organisation greatly, instead of being seen merely as a helpful tool that fulfils a contributory function (Kramer, 2010:94; Mitchell, 2001:108; Nooteboom, 2002:147).

While there are a number of scholars who also focus on the indirect or moderating effects of trust in an organisational setting (Dirks & Ferrin, 2001:450; Dyer & Chu, 2003:66; Kramer, 2010:83; Mitchell, 2001:108; Pirson, 2009:3), this study will focus in particular on elucidating the views of McEvily *et al*. (2008:557-569) on the indirect benefits that trust as an organising principle brings to an organisation.

Since McEvily *et al.* (2008) is regarded as a seminal work in this area, much emphasis will be placed on explaining their views in this study, in order to explore the impact of this perspective on measuring trust within an organisational setting. While they focus inherently on the organising role of trust within an organisation, their views can be extended to explain how trust operates from a stakeholder perspective as well.

12.2.2 Trust as an organising principle

In this study the concept of corporate trust, conceptualised in particular as an organising principle, is viewed as a possible and more effective solution to meet the key organisational challenge of managing interdependency. An organising principle is defined as *"… the logic by which work is coordinated and information is gathered, disseminated, and processed within and between organizations"* (McEvily *et al*., 2008:558).

Trust, when viewed as an organising principle, can offer a pertinent and enabling benefit to an organisation in that it can be used to organise information and work within the organisation in a more cost-effective and organic manner. This will then reduce the need for organisations to rely exclusively on mechanistic coordinating devices and impersonal rules to manage interdependencies and reduce uncertainties (McEvily *et al*., 2008:566).

An organising principle can be used to solve the problem of interdependence and uncertainty, since it represents a heuristic or commonsense set of rules for how people receive, interpret and convey information and select suitable and appropriate actions, behaviours and routines for coordinating their actions with others (McEvily *et al*., 2008:558). Examples of organising principles include authority, price and norms, which can also be referred to as hierarchy, market and clan. According to McEvily *et al*. (2008:558), each of these principles operates on the basis of "… distinct mechanisms that orient, enable, and constrain economic behaviour".

Authority as an organising principle is used as a mechanism to coordinate action notwithstanding the challenges posed by interdependence and uncertainty by, for example, allocating decision-making rights to certain individuals in the organisation. Selznick (1948:25) describes delegation as the "… primordial organizational act".

Price can act as an organising principle in that coordinated action can be encouraged by offering financial incentives to both parties. Norms can act as an organising principle in that the need for compliance and self-control can be used as a mechanism to coordinate action in the face of the challenges posed by interdependence and uncertainty (McEvily *et al*., 2008:558).

In this study trust is also considered to be an organising principle, and as such it affects mainly organisational interaction patterns as well as processes that either enable or constrain the coordination and organisation of work among individuals (McEvily *et al*., 2008:560). Trust as an organising principle frequently operates with other organising principles, such as authority. While the latter is important for behaviour that can be observed or controlled, trust as an organising principle is important in instances where it will be too costly to implement formal monitoring and control systems or where social considerations, rather than efficiency, are key (McEvily *et al*., 2008:558).

One of the key factors that influence the effectiveness of trust as an organising principle is the speed and degree of alignment between trust and trustworthiness. In cases where a person or organisation is perceived as not being trustworthy, trust cannot effectively be used as an organising principle (McEvily *et al*., 2008:559).

In an attempt to explain how and why trust affects certain elements of an organisation, the concepts of McEvily *et al*. (2008:560-564) of structuring and mobilising as two of the contributing pathways through which trust can operate and influence organising in an organisation will now be discussed in greater detail.

12.2.3 Structuring as a pathway to influence organising

The concept of structuring in this context can be defined as *"… the development, maintenance and modification of a system of relative positions and links among actors situated in a social space"* (McEvily *et al*., 2008:560). Structuring results in a network of stable and sustainable interaction patterns in the organisation, and includes both formal patterns (as found in institutionalised routines and organisational units) and informal patterns (as found in social groups and alliances).

Furthermore, structuring also creates social stratification that produces differential status, power and knowledge (McEvily *et al*., 2008:560). The benefit of trust in this instance (when conceptualised as an organising principle) is that it helps to mould the social structure of an organisational system in both the formal and informal ways (McEvily *et al*., 2008:560). This social structure in turn helps to produce trust, which forms part of the organisation's social capital (Nooteboom, 2002:146-147).

Within the concept of structuring as a pathway to influence certain organisational properties and patterns such as the density, multiplexity, stability and non-redundancy of the social network, certain key processes can be identified that influence the social structure of the organisation (McEvily *et al*., 2008:560). These processes include the ability of individuals in a trust relationship to transfer trust from a third party; generate more or deeper levels of trust within an existing relationship; accept delayed reciprocity; and suspend judgement in a trusting relationship.

These processes influence the social structure of the organisation positively because they allow individuals within the organisation to handle uncertainty more effectively; be more flexible in how they interact with others in the organisation; make the structures and agreements of the organisation more resilient; and reduce the likelihood of conflict as well as the probability of a party to break the relationship because they no longer find value in it (McEvily *et al*., 2008:562). These processes can therefore be beneficial in influencing the social structure of an organisation and assist in making it more effective (Nooteboom, 2002:147). Each process will now be briefly discussed.

- ***Transferability of trust influences density of social structure***

The process of transferability can increase the density of the social structure or network within the organisation, which in turn (from the perspective of social capital theory) promotes trust and norms of cooperation in the organisation (McEvily *et al*., 2008:560; Nooteboom, 2002:147). In instances where trust cannot be based on a direct experience with the object of trust, it is possible for the initial trust formation to be based in a source other than the trustee (either at individual or collective level), because trust can be transferred from a third party (Kramer, 1999:576; McEvily *et al*., 2008:560; Nooteboom, 2002:120).

The benefit is that in an instance where two individuals have little or no knowledge of each other, trust between them can be developed relatively quickly when they share trust in a common third party, assuming that the signal from the third party is reliable and accurate (Nooteboom, 2002:120). “Trust in the third party (then) serves as a proxy for trust in the unknown counterpart.” (McEvily *et al*., 2008:560).

Similarly, an individual can transfer his trust in a group to which he belongs to another member of the group with whom he has no direct experience, based on the perceived similarity of the collectivity. The greater the perceived similarity among members of a collectivity the more readily trust in one member transfers to trust in others (Williams, 2001:391). This process of the transferability of trust allows new relationships to be developed between people who did not know each other previously, as well as a person's own network to grow in size (Nooteboom, 2002:120). In particular it also allows the quality of the organisational network to be enhanced since it increases the density of organisational ties.

Nooteboom (2002:117) refers to the role that the third party plays in trust transfer as one where the third party is effectively closing a 'structural hole', or a disconnection, that had previously existed among contacts. This increases the degree of closure in the organisation, which in turn provides the foundation for greater cooperation, cohesiveness and social support.

Fukuyama (1995:27) uses the term 'spontaneous sociability' to describe this manifestation of trust as a form of social capital, which refers to the wide range of cooperative, unselfish and extra-role behaviour that people who are part of a social community engage in, which then enhances their "… collective well-being and further the attainment of collective goals".

Cohesiveness in this context, as one of the benefits that trust as an organising principle – as part of the organisation's social capital – brings to the organisation, has been recognised to be related to a range of organisational outcomes, such as enhanced performance (McEvily *et al*., 2008:561); employees willingly contributing their time and attention to the achievement of organisational goals; greater knowledge sharing to co-ordinate critical task interdependencies and overcome the dilemmas of collective action (Nooteboom, 2002:147), as well as more responsible usage of scarce resources (Kramer, 1999:583).

However, it can also have negative consequences. Excessively dense networks and cohesiveness can lead to groupthink, exclusionary networks, a reduction in the flow of new information and the lack of flexibility and adaptability (Hogg & Terry, 2000a:129; Jones, 2007:184; McEvily *et al*., 2008:561; Nooteboom, 2002:144).

The concept of the transferability of trust can also be applied to a stakeholder setting, where the third (trusted) party can be another customer, a journalist or an analyst, who is known and trusted by the trustee. Based on a recommendation from this trusted person, the stakeholder (trustor) can then transfer his trust to the unknown for-profit organisation (trustee) and on the basis of that, buy the product from, write the positive media article about or invest in the organisation, even though he has no personal knowledge of the organisation (trustee).

- ***Generative capacity of trust creates multiplexity in ties***

Another process that can positively influence the social structure of an organisation and make it more effective relates to the pattern where trust creates multiplexity in existing ties, based on the generative capacity of trust (McEvily *et al*., 2008:561). This means that within an existing relationship where two parties trust each other, the relationship itself can deepen over time with additional layers, dimensions or relational content being added to the relationship. This is another form of transferability, with the key difference that the transfer of trust is occurring within the same 'tie' or relationship, rather than across ties with different individuals (McEvily *et al*., 2008:561).

According to McEvily *et al*. (2008:561), trust "… unlike other organizing principles, implies a somewhat 'intimate' relationship among individuals involved in organizing and coordinating economic activities". The higher the levels of trust, the more knowledgeable the individuals are about the competencies and strengths of their counterparts (Casson & Della Giusta, 2006:348). This in turn provides the basis for the individuals concerned to discover opportunities for increased collaboration and generate new and novel ways in which to work together or organise work better (Nooteboom, 2002:147). Multiplexity in relationships is then one way through which new modes of value creation can be realised (McEvily *et al*., 2008:561). In this regard trust "… represents an important component of social capital, defined as *the actual or potential value derived from a relationship*" (McEvily *et al*., 2008:561).

It is also possible for an existing relationship between a stakeholder (trustor) and a for-profit organisation (trustee) to 'deepen' over time, for example when a customer who has come to know and trust the organisation also starts supporting one of the organisation's corporate social responsibility programmes, or when he speaks out in defence of the organisation when it is criticised in a social medium.

- ***Delayed reciprocity due to trust and stability in relationships***

According to McEvily *et al*. (2008:561-562), a third way in which trust positively affects structuring in organisations is through making delayed reciprocity possible and through enabling serial equity, which in turn leads to more stable and longer lasting relationships and, by extension, organisational networks.

In a relationship between two individuals that involves the exchange of goods, services or favours, the exchange needs to be virtually instantaneous for it to be reciprocal. Since this is not always possible, trust can play an important role in delaying the expectation of reciprocity. In a relationship where the two parties trust each other, the need for "… perfect congruence in value in a single exchange is reduced, because there is an expectation that balance or reciprocity will be reached across a series of exchanges that will take place in the course of the ongoing relationship" (McEvily *et al*., 2008:562).

Because they trust each other, both parties in the relationship have a confident expectation that commitments will be honoured, if not immediately then at some point in the future. In addition, trust also creates the conditions for serial equity to occur. This means that both parties have the expectation that their relationship will continue for the foreseeable future (McEvily *et al*., 2008:562).

The benefits that trust in this instance brings to an organisation are a degree of flexibility; a capacity to handle uncertainty while maintaining its basic structure; an ability to make its structures and agreements more resilient; an opportunity to reduce the likelihood of conflict within relationships; and the likelihood of a party extricating itself from relationships that have ceased to generate value or have become less valuable in the short term (McEvily *et al*., 2008:562).

From a stakeholder perspective, the acceptance of a guarantee or warranty from a for-profit organisation can be regarded as an example of the acceptance of delayed reciprocity, based on trust. Although the stakeholder (trustor) immediately receives the item that he has bought, his decision to purchase an expensive item is often influenced by the fact that the organisation (trustee) has a guarantee in place that will be honoured in the future in case anything goes wrong.

- ***Role specialisation and non-redundancy***

A last example of how trust can assist to make the social structure within an organisation more effective relates to the way in which redundancy can be reduced in a network through the establishment of specialised roles (McEvily *et al*., 2008:562). The underlying thought here is that the process of designating different roles to individuals (such as leaders, liaisons or boundary spanners), and of then trusting that the particular individuals will fulfil the roles that have been designated to them, leads to a reduction of redundancy within the organisational structure.

The designation of specialised roles to specific individuals (and the assumption that they will fulfil those roles well), means that the rest of the people in the organisation can then operate more efficiently. They can reach more contacts (i.e. benefit from more diverse relationships) and organise their work efforts more effectively with the same number of people in the team, because they can rely on the individuals within the specialised roles to act in their collective interests (McEvily *et al*., 2008:562). This also offers the benefit that the chances increase to discover different opportunities to create more value.

Organisational research that has focused on the relationship between trust and forms of voluntary deference within hierarchical relationships in organisations, has found that trust is critical for people in authoritative roles for a number of reasons (Kramer, 1999:585). Without the presence of trust, leaders' ability to manage effectively would be greatly reduced, since they would have to constantly explain and justify their decisions and actions to their employees.

Furthermore, since no manager can detect every single failure of an employee to cooperate or every single performance that needs to be rewarded, he needs to be able to trust that his employees will act in a responsible manner based on a feeling of obligation to the organisation, and that they would willingly defer to organisational authorities. In turn, he also needs to be trusted as a leader, particularly when conflict arises, since it influences employees' acceptance of the dispute resolution procedures and outcomes.

Kramer (1999:585) observes: "Research has shown that individuals are more likely to accept outcomes, even if unfavorable, when individuals trust an authority's motives and intentions." This concept can also be extended to a stakeholder setting, for example where stakeholders accept the role of a CEO in representing the organisation.

12.2.4 Mobilising as a pathway to influence organising

According to McEvily *et al*. (2008:563), a second causal pathway through which trust affects organising in an organisation is mobilising, which refers to the process of converting resources (both material and non-material) into finalised activities performed by interdependent individuals.

Within any organisation resources such as time, effort, attention and knowledge are decentralised and unevenly distributed among the people. In order to achieve its strategic and operational goals, an organisation needs to encourage and enable its internal stakeholders to coordinate and align their efforts (Jones, 2007:19). Mobilising then involves motivating stakeholders to contribute their resources and work with others in the organisation to use their combined resources in joint activities. This then results in organisational action and in turn, in the achievement of the organisational goals (McEvily *et al*., 2008:563).

Trust influences the pathways through which this action arises. In particular, trust influences the processes of knowledge sharing, committing and safeguarding respectively, which happens through the corresponding mechanisms of disclosure and screening, identification and the suspension of judgement (McEvily *et al*., 2008:563). These processes and their mechanisms are now discussed.

- ***Knowledge sharing through disclosing and screening***

According to McEvily *et al*. (2008:563), one way in which trust enables the mobilisation of stakeholders to join resources and activities to achieve a common organisational goal is through the process of knowledge sharing and the mechanism of disclosure. These authors hold that trust encourages knowledge sharing in two ways: by increasing the sender's disclosure of knowledge to more individuals and by reducing the screening of knowledge received from different individuals.

When an individual trusts that the knowledge or information he has will not be misused or misappropriated, he would be more willing to share sensitive and proprietary information about himself, his unit or his organisation with others. A for-profit organisation where there is an open and free flow of knowledge, information and best practices is bound to have the foundation for organisational learning in place, because the chances are higher for people to explore how knowledge can be recombined in new and novel ways (McEvily *et al*., 2008:563).

From a receiver's perspective, trust influences the perceived authenticity of the information and knowledge that is being shared. When an individual receives information from a trusted source, he is more likely to accept it at face value, and not feel the need to first spend time to verify its accuracy. This means that he can immediately act on the information. Knowledge sharing in a trusting environment increases organisational learning, alertness and responsiveness.

However, organisations need to maintain a careful balance, in order not to create a culture where knowledge is shared solely on the basis of trust. It is only when employees also question information or knowledge that is being shared, that the chances for strategic blindness, overconfidence and inability to innovate are minimised (McEvily *et al*., 2008:563).

The concept of trust that encourages knowledge sharing can also be made applicable to a stakeholder setting. In the first place, a stakeholder (trustor) will be more likely to share knowledge or information about himself (for example to share his credit card details online with an organisation), when he trusts the organisation and the security measures it has put in place to keep the stakeholder's details safe from misuse. In the second place, a stakeholder (trustor) will be more likely to trust the information that is being shared if he trusts the for-profit organisation. As such, he will be less likely to feel the need to screen or verify the information received from the organisation (trustee).

- ***Identifying and committing***

According to McEvily *et al*. (2008:564), another way in which trust enables the mobilisation of stakeholders to use their combined resources in joint activities to achieve the organisational goals is through the process of identification with and the mechanism of commitment to the organisation. These authors hold that identification cultivates commitment by influencing expectations about the behaviours and intentions of the members of a group, with the result that members make more positive attributions about the cooperativeness and commitment of the rest of the group's members.

Kramer (1999:586) also notes that status recognition, which refers to the extent to which leaders recognise and endorse employees' sense of identity as a fully-fledged member of the organisation, is one of the most important factors that influence attributions of trustworthiness. Other factors include employees' trust in the benevolence and neutrality of their leaders.

When a stakeholder trusts an organisation he will also be more likely to identify with it. This means he will be more likely to show his commitment to the for-profit organisation by for example wearing or displaying the logo of the organisation so that others can see that he is associated in some way with the organisation, or to speak up for the organisation and defend its actions within his own social group.

However, as McEvily *et al.* (2008:564) also highlight, over-identification can have negative consequences for an organisation, leading to groupthink and a situation where its members are not willing to consider alternative views. According to Jones (2007:184), one of the dangers inherent in such a situation "… lies in the power it gives to those at the top of the organization to manipulate the situation".

Jones (2007:181,184) cites Arthur Andersen as an example, whose top leaders manipulated the organisation's culture of compliance, respect and tradition, and who systematically instructed their subordinates to overlook anomalies in client books, in order to obtain large consulting fees and maintain the business. As such, Jones (2007:181) observes: "The paradox is that Arthur Andersen's values were so strong that they led subordinates to forget the 'real' ethics of what they were doing, and Arthur Andersen's 'distorted' ethics became the ones they followed." This caused the once powerful and reputable organisation to lose its licence to practise accounting in Texas in 2002 (Jones, 2007:184).

- ***Suspending judgement and safeguarding***

According to McEvily *et al*. (2008:564), a third way in which trust enables the mobilisation of stakeholders to join resources and activities to achieve a common organisational goal is through the act of suspending judgement, which is to assume in any situation that the other party's intentions are benevolent or benign, and which reduces the need for an individual to put mechanisms in place to safeguard himself.

McEvily *et al*. (2008:564) hold that trust enables people to give each other the benefit of the doubt when uncertainties or potential conflicts arise, and that individuals who trust each other are more likely to suspend judgement of each other. Since people who trust each other do not have to constantly be on guard against opportunistic behaviour, they do not have to use measures such as monitoring and safeguarding to keep track of other people's behaviour and protect themselves.

The benefit that this offers is that oversight can be relaxed and more autonomy can be granted to employees. The time and effort spent on non-productive oversight activities such as monitoring and safeguarding can be better used in more productive, value-enhancing activities. Trust then helps to reduce transaction costs and increase flexibility and adaptability, which can represent a sustainable source of competitive advantage (McEvily *et al*., 2008:564; Stout & Blair, 2001:9).

This is in line with the findings of a study of exchange relations among organisations in the New York apparel industry, where Uzzi (1997:43) found that trust in that setting operated as a social decision heuristic, where the decision-makers adopted "… a predilection to assume the best when interpreting another's motives and actions". In addition to noting an absence of monitoring and safeguarding systems in that environment, Uzzi also found that the individuals spontaneously and unilaterally engaged in a wide range of actions to help solve others' problems as they arose. In his interpretation of these findings he reasoned that it is the heuristic character of trust which permits individuals to be responsive to stimuli (Uzzi, 1997:43).

"(Trust) heuristics facilitate the exchange of a variety of assets that are difficult to put a price on but that mutually enrich and benefit each organization's ability to compete and overcome unexpected problems." (Kramer, 1999:582). When a stakeholder trusts an organisation, he is also more likely to give the organisation the benefit of the doubt when uncertainties or potential conflict arises.

12.2.5 <u>Closing remarks on the benefits of trust</u>

While this overview illustrates the benefits of trust, two points need to be emphasised with regard to the role of trust when adversity strikes a for-profit organisation.

An organisation can have a good reputation, but when adversity strikes, that reputation can either serve it well by carrying it through the crisis, or the single crisis can ruin its reputation. The question to be asked is what will make the difference?

The answer may be that it is the level of trust the stakeholders have in the organisation and whether the crisis is a result of something the organisation did that broke that trust relationship, or whether the crisis was brought about by something beyond that organisation's control, that will determine the outcome (Eccles *et al*., 2006:356).

Consider the following two examples:

<u>Example 1</u>:

In May 2003 a blackmailer threatened to place poisoned food on the shelves of Pick 'n Pay, one of South Africa's largest supermarket chains, unless a sum of money was paid to him (Stockport & Gordon-Brown, 2009). In the registered letter sent to the then CEO, Sean Summers, the author also warned Pick ’n Pay against informing the police or the press, saying that he would put contaminated food in Pick ’n Pay stores if this happened. The CEO immediately alerted the police, but not the press, hoping to be able to solve the issue before any harm was done.

Seven weeks after the first threat had been received the extortionist actually put contaminated food in one of Pick ’n Pay’s stores. The CEO then went public with the threat, explaining the context and warning consumers about the specific products that might have been tampered with. The organisation subsequently lived up to its reputation for honest communication and care for the consumer by using the media and all other available channels such as email to online shoppers, to constantly communicate and update the public. Furthermore, visible security was placed in the stores and notices and posters were placed in strategic areas in the outlets (Yossava, 2003).

The outcome of this was that the organisation’s share price remained constant and consumers continued to support the store (Yossava, 2003). Sean Summers was awarded the *Business Times* Leader of the Month Award in July 2003, in recognition of the way he handled the extortion crisis (Yossava, 2003).

This crisis, which may have been a nightmare for any retailer, did not harm the CEO or the organisation irreparably. An explanation for this could be that the trust the consumers and other stakeholders such as investors had in the CEO and the organisation before the incident, meant that they believed him during the crisis, because it was not brought about by his wrongdoing (he was perceived as a victim, rather than a culprit), and because he had given them enough evidence in the past to be trusted, based on his and his organisation’s consistent trustworthy behaviour (Eccles *et al*., 2006:356; Fombrun & Van Riel, 2004:162).

<u>Example 2</u>:

A few years ago Arthur Andersen was rated one of the best and most admired auditing firms in the world. While its good corporate reputation took years to build, it was ruined by a single incident. After allegations surrounding their involvement in the Enron scandal became known, not even their excellent reputation could save them. The resultant loss of trust and reputation ultimately led to the demise of this organisation in 2002, when it lost its licence to practise accounting (Davies *et al*., 2010:531; Jones, 2007:32,184; Neufeld, 2007:40; Keh & Xie, 2009:732).

Contrary to Example 1, Arthur Andersen's perceived role in this scandal was not that of the proverbial victim, but rather one where the organisation was perceived to be part of the wrongdoing (Eccles *et al*., 2006:356; Fombrun & Van Riel, 2004:162; Jones, 1991:387). This constituted a break in the trust relationship with all their stakeholders, who then, based on their distrust, withdrew their support *en masse*.

These and other examples indicate that there is undoubtedly a strong relationship between trust and reputation, the nature of which will be explored in Chapter 5.

13 BARRIERS TO TRUST IN A CORPORATE CONTEXT

In this study seven key barriers to corporate trust are identified.

13.1 FROM SUSPICION TO OPPORTUNISTIC PROFIT MOTIVE

13.1.1 <u>Suspicion and distrust</u>

Just as trust is a self-fulfilling prophecy, distrust is also self-fulfilling, only in the opposite direction (Nooteboom, 2002:38,86). Where trust generates an upward spiral effect, meaning that it grows the more it is employed, distrust generates a downward spiral effect (Powell, 1996:52). As Pirson (2009:21) observes: "Trust is one of the resources that does not adhere to the economic logic. It increases – not decreases – when used."

A main barrier to trust in a corporate context is distrust (also referred to as mistrust), which can be described as a lack of confidence in the other person, as a suspicion and a belief that the other person does not care, or has harmful intentions and therefore needs to be closely monitored (Kramer, 1999:587). As with Nooteboom (2002:86), Pirson (2009:21) labels mistrust as the biggest enemy of trust, since it generates a downward spiral effect, in that "… signs of mistrust create mistrust as a self-fulfilling prophecy".

One of the central cognitive components of distrust is suspicion, which can be defined as a *"… psychological state in which perceivers actively entertain multiple, possibly rival, hypotheses about the motives or genuineness of a person's behavior"* (Kramer, 1999:587). Suspicion is triggered for example in a situation where a person has a gut feeling that another person may be insincere or when he feels that his expectations have been violated. The impact is that the perceiver will actively start looking for more information to confirm or dispel his suspicion (Kramer, 1999:587).

Bachmann (2006:399) highlights that betrayed trust does not just leave the social actor who has been betrayed without trust, but rather that it produces distrust of the trustee, which then makes it difficult merely to re-establish a neutral basis for future exchanges. Distrust then emerges when "… the suspicion arises that the disruption of expectations in one exchange is likely to generalize to other transactions". Distrust implies that the trustor attributes a sense of intentionality to the trustee, one that is expected to continue throughout all interactions or exchanges (Nooteboom, 2002:93).

Within a corporate context there are a number of factors that can increase an individual's distrust and suspicion of leaders, peers or subordinates. Various studies have shown, for example, that the categorisation of individuals into a specific group, or perceived differentiation between people, may create a climate of presumptive distrust between groups within the organisation. In other words, the various groups and individuals base their suspicion on what they believe is a probable, most likely or reasonable cause (Kramer, 1999:588).

On the other hand, a for-profit organisation can also signal distrust of its stakeholders with for example highly specified contracts, excessive security controls, camera monitoring, checking employee attendance and movements during working hours, or incentive schemes based on external motivations. These not only result in lower levels of cooperation, but actively undermine trust (Pirson, 2009:21).

The behaviour of corporate leaders in particular (as highly visible role models) can have a huge impact in creating suspicion. Zimmer (1979:749) studied the effects of violated expectancies on people's trust in organisations and found that when individuals make a judgement about an organisation's trustworthiness, they tend to take prominent events involving the leaders of the organisation and then to over-generalise it. In other words, they infer from one event that the leaders, therefore the organisation, are not to be trusted.

This highlights the importance of the role of leaders in an organisation and the fact that they need to act in accordance with the values of the organisation. It also emphasises the importance of honest and consistent communication, both internally and externally, to create context, manage perceptions and build trust.

13.1.2 <u>Breach of the psychological contract</u>

Another barrier to trust within a corporate context is when employees subjectively experience that the organisation has failed to meet its perceived responsibilities and commitments towards them.

Robinson (1996:463) uses the term 'psychological contract' to refer to employees' implicit assumptions and beliefs regarding the terms and conditions of their employment, which is regarded as a reciprocal exchange relationship. Rodgers (2009:84) notes that such assumptions are largely taken for granted and unacknowledged until violated, and that the breach then leads to a conscious questioning of the validity of the assumptions, "… which in turn undermines the foundation of the relationship itself".

A breach in this relationship results when the employee feels that he has given what was owed to the employer, but the employer has in some way failed to provide what was owed to the employee. When such a breach (real or perceived) occurs, it leads to distrust and this in turn can influence the job performance of the employee or the employee's intention to remain with the organisation (Kramer, 1999:593).

Empirical evidence from social dilemma experiments has shown that signs of lack of trust and trustworthiness, apparent in social signals and language, tend to be self-fulfilling. It was found that once players in a social dilemma game come to believe their fellow players intend to defect, they do it themselves, and their distrust prevails even if it was initially unjustified. In other words, the impact of social signals, including choice of language, may be asymmetric, which is why Stout and Blair (2001:54) state: “Rhetoric alone cannot support trust, but rhetoric alone can undermine it.”

This again emphasises the importance of effective, two-way, symmetrical leadership communication, which can help to clarify and manage the expectations of both parties, and address any perceived breach as soon as it occurs in order to minimise the negative consequences.

13.1.3 Fragility of trust

Several studies have shown that it is easier to destroy trust than to create it (Kramer, 1999:593; Kramer, 2010:95; Stout & Blair, 2001:54). This fragile nature of trust is one of the main barriers to trust in a corporate context (Webb, 1996:288).

Based on empirical evidence from social dilemma games, Stout and Blair (2001:54) observe that even a small change in the initial conditions, such as a change in the feelings of group identity or even in the language used to describe a particular social relationship can shift the situation past a ‘tipping point’, moving the end result from one behavioural extreme to the other.

The fragile nature of trust lies in the fact that it is easier to destroy the social conditions that favour trust than to create them. While explicit and implicit signals of trust and trustworthiness are subject to being disproved by contrary evidence, signs of lack of trust and trustworthiness tend to be self-fulfilling (Nooteboom, 2002:86; Pirson, 2009:21; Stout & Blair, 2001:54).

Slovic (1993) identified a number of cognitive factors that contribute to asymmetries in the trust-building versus the trust-destroying process. The first cognitive factor is that negative events, which can destroy trust, tend to be more visible than positive events. The second factor is that these negative events tend to influence people's opinion more than positive events would, and the sources of bad news tend to be viewed as more credible than the sources of good news (Kramer, 1999:593).

Just as trust can be transferred via a third party, distrust can also be transferred via third party disclosures. The difference here however is that distrust is amplified or increased to a greater extent than trust via a third party disclosure (Burt & Knez, 1996:81). Kramer (1999:593) observes that, since third parties are more attentive to negative information, and often prefer negative gossip, "… indirect connections amplify the distrust associated with weak relations much more than they amplify trust among strong relations".

13.1.4 Negative media coverage

Cappella and Jamieson (1997) considered the impact of the media in creating and fuelling distrust and suspicion, and found that the way in which the media frame a news story directly affects the public's mistrust in organisations. A news story that is positioned within a strategic frame that focuses on a winning/losing theme and suggests negative qualities about the people involved (such as being deceitful or positioning themselves for advantage) is more likely to promote greater mistrust and cynicism than more neutral, issue-oriented frames would.

Negative media coverage also has an impact on the employees of an organisation, particularly if they only become aware of the issue for the first time when they read about it in the newspaper or if the issue is not addressed or explained internally by the leadership. This can then create or fuel a sense of distrust and suspicion in their leaders and organisation, and highlights why effective media relationship management should be an important consideration for any corporate communication management strategy.

13.1.5 Technology

The use of technologies such as workplace surveillance cameras, compulsory polygraphs or other forms of monitoring systems has been found to be a barrier to creating and maintaining trust in the workplace. These technological systems, which are acquired with the goal to enhance employee compliance and deter misbehaviour, tend to undermine employees' motivation to engage in the type of behaviour that leadership intended to induce or ensure with the use of these technological systems (Kramer, 1999:590-591).

Kramer (1999:590-592) refers to various studies (such as those by Aiello, Cialdini, Hochschild, Kruglanski, Moore-Ede & Strickland) that focus on the impact of the use of such systems on employee trust and have found that, however well-intentioned its use, suspicion and mistrust inevitably result from this. Since the use of these monitoring and surveillance systems communicates to the employees that they are not to be trusted, it creates fear, suspicion and distrust.

The same argument can be applied to the use of such monitoring technologies in areas that affect customers or external stakeholders of an organisation. Should it be necessary for an organisation to make use of such systems, it would be prudent for the leadership to be aware of the possible unintended consequences that the use of these systems may have on the trust relationship, and to contextualise and communicate their use to employees and stakeholders in such a manner that it minimises the negative impact on trust.

13.1.6 Legal rules and contracts

The conventional belief is that opportunistic behaviour is discouraged and cooperation encouraged within organisations primarily through the use of legal and market incentives, although as Fukuyama (1995:149) notes, it is actually more accurate to say that the essence of *modern* economic life replaced informal moral obligations with formal, legal ones.

Legal contracts are seen to represent the explicit and implicit agreements that have been voluntarily negotiated among the rational parties who join in the organisation's activities. While legal contracts can be useful – for example, negotiating a contract encourages would-be joint business partners to communicate more clearly what each wants to get out of their relationship (Stout & Blair, 2001:81) – the view held in this study is that legal sanctions, in many circumstances, provide at best imperfect means of regulating behaviour and at worst it can in fact be a barrier to trust in an organisation (Stout & Blair, 2001:3; Swift, 2001:19). As Nooteboom (2002:11) puts it, "… an attitude of control is destructive of the basis for trust".

One of the most important lessons of trust is that cooperation is not always best promoted by promising rewards and threatening punishments. There is evidence that the use of legal rules and contracts to discourage opportunistic behaviour can "… in some situations be not only unnecessary, but counterproductive, increasing the likelihood of the very sort of misbehavior it was intended to protect against" (Stout & Blair, 2001:16).

This is, according to these authors, because external motivations for cooperative behaviour can undermine corporate participants' internal motivations, thereby reducing the likelihood of cooperation instead (Stout & Blair, 2001:84). Based on social dilemma experimental evidence, it is patent that individuals trying to decide whether to trust and behave trustworthily are proficiently sensitive to the social signals they receive about what sort of behaviour is expected and appropriate in a given context (Stout & Blair, 2001:94).

Just as language can promote or destroy trust, behaviour as a non-verbal signal can communicate and impact on the creation or destruction of trust. Consider, for example, the 'signal' that a for-profit organisation sends to a potential business partner when it brings a lawyer and a multi-page contract loaded with fine print to a first meeting. This behaviour suggests a reluctance to trust on the part of the organisation, and given the empirical association between a willingness to trust and to behave trustworthily, and the perceptions of what others expect and need; how others are likely to behave; and what others' relationships are to themselves, this signal can in fact act as a barrier to trust (Stout & Blair, 2001:45).

As such, Stout and Blair (2001:80-81) note that the "… reality of trust behavior cautions against the conventional assumption that opportunism in firms … is always best addressed by bringing the force of the law and of formal contract into play". Worse, attempts to use contracts in relationships where trust plays a central role can prove counterproductive, and promote exactly the sort of opportunistic behaviour they were intended to discourage.

13.1.7 An opportunistic profit motive

Pirson (2009:24) argues that "… an opportunistic profit motive is a true barrier to sustained high trust". In commenting on the much higher levels of trust that non-profit organisations enjoy compared to for-profit organisations, he notes that non-profit organisations enjoy much higher levels of trust, because they serve a cause larger than financial profit. He also observes that while many for-profit organisations have over time set higher-level vision and mission statements, those are rarely believed.

This is reminiscent of the earlier observations noted by Selznick (1948:31) as well as McPhee and Zaug (2001:578) that a for-profit organisation that solely relies on profit as its sustaining incentive at the expense of everything else is an organisation that may be putting its own sustainable future at risk.

This emphasises the need for a for-profit organisation to adopt a longer-term focus as a responsible corporate citizen, to establish a value-based identity and instil a culture where the organisation not only communicates its values effectively, but where it actually lives them. Stakeholders can accept that a for-profit organisation needs to make profit, but if they believe that the organisation is doing so in an ethical and trustworthy manner, they will trust and support it in the longer term.

14 SOURCES OF TRUST AND TRUSTWORTHY BEHAVIOUR

14.1 WHY WOULD A TRUSTOR VOLUNTARILY EXPOSE HIMSELF TO RISK?

Before discussing the functions of corporate trust, it will be sensible to first address the question as to why a stakeholder as trustor would voluntarily expose himself to the risk of loss through the acts of a for-profit organisation.

Possible answers to this question can be seen as some of the key sources of trust and trustworthy behaviour.

14.1.1 Legal sanctions

The most obvious reason why a stakeholder might trust a for-profit organisation would be that the stakeholder knows that untrustworthiness might subject the organisation to legal sanctions (Hardin, 2002:46,47,52; Nooteboom, 2002:107). The theory that legal rules are needed to curtail opportunistic organisational behaviour dates back to Thomas Hobbes, a liberal English philosophical scholar who emphasised the rights of the individual (Fukuyama, 1995:284; Stewart, 2009; Stout & Blair, 2001:18).

However, if one considers the magnitude of the information and the resources required for legal sanctions, alone, to work (Fukuyama, 1995:27), these strong requirements suggest that in many cases the threat of legal sanctions will impose only a weak constraint on an organisation's behaviour, and the logical inference is that legal rules may rarely be the sole, or even primary, reason a stakeholder would have to trust a for-profit organisation (Stout & Blair, 2001:19).

14.1.2 Market sanctions

A second category of reasons that a stakeholder can use as a basis for believing that an organisation will behave trustworthily, rests on the belief that the organisation may have external incentives to refrain from abusing a stakeholder's trust if such untrustworthy behaviour would signal to others in the marketplace the organisation cannot be trusted (Stout & Blair, 2001:19; Mitchell, 2001:120).

Reputational loss, fear of retaliation and social sanctions based on social values and norms, which are collectively labelled market sanctions, are regarded as such external incentives, since all three are thought to function as a constraint and direct a for-profit organisation's behaviour to manage perceptions, to ensure that future opportunities for beneficial exchanges are not put at risk.

Opportunistic behaviour by an organisation bears the risk of harming its corporate reputation. The higher its reputation, the greater the loss will be in case of unfavourable behaviour and the more certain the stakeholders can be that the organisation will not engage in opportunistic behaviour. A good reputation then serves as a means to reduce uncertainty and generate a feeling of trust to engage in the transaction (Einwiller & Will, 2001:7).

Rational choice theorists have placed a great deal of emphasis on such external rewards and punishments as sources of trust (Hardin, 2002:46,47,52; Nooteboom, 2002:107), but while these can be seen as motivations for keeping trust, they are nonetheless not trust. Mitchell (2001:120) notes that they are, as Williamson notes, calculations, or as Hardin suggests, devices that make commitments credible.

While these market sanctions may undeniably provide important motives for cooperative behaviour in many social interactions, such motivations continue to rely on a view of people as always strategic, calculating and self-interested (Stout & Blair, 2001:19: Mitchell, 2001:120). Furthermore, in the light of the demanding information and resource requirements that must be met for such external forces to constrain a for-profit organisation (and therefore provide the basis for a stakeholder's trust), the presumption is that market sanctions may rarely be the sole reason why a stakeholder would place his trust in a for-profit organisation (Stout & Blair, 2001:19).

Due to the high costs and resource requirements involved in employing legal and market sanctions to enforce trustworthiness, there is reason to suspect that other influences may be at work as well. As Stout and Blair (2001:19) conclude, "… calculative trust may not be all, or even the most important part of the story".

14.1.3 <u>Internalised trust</u>

A third, and much stronger, constraint of a for-profit organisation's opportunistic behaviour may come from the organisation's internalised belief that it ought not to abuse its stakeholders' trust (Jones, 2007:54; Stout & Blair, 2001:23; Mitchell, 2001:123). Since it has been posited that a for-profit organisation wants to be 'praiseworthy' and will want to constrain its opportunistic behaviour, because it possesses a conscience and therefore wants to escape being 'blameworthy' (Mitchell, 2001:124), it is posited that the organisation should adopt these normative judgements (Bishop, 2000:7). "Thus, trustworthiness takes its place as an internalized norm." (Mitchell, 2001:125).

It is therefore posited that in some circumstances an organisation may prefer to behave trustworthily toward its stakeholders, even if untrustworthy behaviour would not trigger any external sanction. If its stakeholders believe that the organisation's desire to behave trustworthily is strong enough to deter it from taking advantage of its stakeholders, the self-same stakeholders may conclude it is safe to make them vulnerable to the organisation, that is to trust it (Stout & Blair, 2001:23).

This conceptualisation of trust, as being driven by expectations of intrinsic trustworthiness, is much more comparable with the layman's understanding of trust than the economists' notion of calculative trust. Dictionary definitions of trust, for example, centre on the trustee's essential integrity and moral character, rather than whether he has external incentives to refrain from exploiting his trustors.

First, trust behaviour in everyday as well as corporate life is a fact and, based on casual observations supported by experimental findings, it is clear that people and organisations often behave in an 'other-regarding' fashion, including behaving as if they both trust and are trustworthy, which indicates that they are capable of internalised trust (Jones, 2007:54; Stout & Blair, 2001:23; Mitchell, 2001:123).

In the second place, Stout and Blair note that "… given that internalised trust exists, economic analysis itself predicts that it is likely to be an important and potent force in business organizations. This is because trust offers distinct efficiency advantages for both individuals and institutions, including but not limited to the institution known as the corporation".

Based on this, the argument that a for-profit organisation has to *become* trustworthy if it wants to earn its stakeholders' trust, support and loyalty, is again highlighted. The reason why an organisation would want to be trustworthy, and not take advantage of the stakeholders' vulnerabilities, is because it is clearly in its interest to do so, regardless of whether it fears damage to its reputation, the loss of its self-respect or the forfeiture of its own identity and sense of morally acceptable behaviour (Blois, 1999:200; Jones, 2007:54). This argument also ties in with integrity, as one of the key antecedents of trust.

15 FUNCTIONS OF CORPORATE TRUST

15.1 A NUMBER OF KEY FUNCTIONS

Trust in a for-profit organisation is regarded to fulfil the following key functions: it can serve as an effective mechanism to reduce complexity in a relationship that is not based on personal knowledge; it serves as an expression of the stakeholders' expectations of the organisation; and it is an effective mechanism to reduce mutual vulnerability and exposure to risk.

As such, trust is therefore also an effective mechanism to increase stakeholders' voluntary cooperation and support of the organisation, but since it is difficult to enforce, it is dependent on the for-profit organisation's acknowledgement and acceptance of its duty to protect the rights of its stakeholders. Ultimately, the function of trust is to serve as an evaluation of the organisation's trustworthiness, whether it is worthy and deserving of its stakeholders' trust.

Next, each of these key functions is discussed in greater detail, as part of the attempt to seek greater clarification of the corporate trust construct.

15.1.1 A mechanism to reduce complexity in relationships

The first function of corporate trust is that it serves as an effective mechanism to reduce complexity in a commercial relationship (Bachmann, 2006:397) based on less familiarity than that which is present in an interpersonal relationship.

Corporate trust occurs as a commercial interaction between two parties, namely the subjects or trustors (stakeholders) who show the trust and the object or trustee (for-profit organisation) who can be trusted (Einwiller, 2003:198; McKnight & Chervany, 2002:43; Nooteboom, 2002:10; Ratnasingham, 1998:313-314; Sichtmann, 2007:1001; Swift, 2001:19), where these two parties do not have direct, personal knowledge of and experience with each other. The less familiar context makes this relationship more complex than an interpersonal relationship.

Corporate trust is related to interpersonal trust in that the origin of trust lies in the individual (the trustor), whereas the trustee in a corporate trust relationship can be either individual or collective (Ingenhoff & Sommer, 2010:342). However, contrary to interpersonal trust, corporate trust is not placed in a specific personal relationship.

Stakeholder trust in a for-profit organisation is made possible because of the concept of institution-based trust, which provides for trust in a specific situation, irrespective of the specific people in that situation, and in the broader organisational structures (McKnight & Chervany, 2002:48). In this instance, the trust relationship therefore exists between individual stakeholders and the organisation as a collective actor (Ingenhoff & Sommer, 2010:342).

Corporate trust is also made possible because of systems trust, which is defined as *trust in the functioning of bureaucratic sanctions and safeguards* (Lewis & Weigert, 2008:164; Luhmann, 1979:50). Systems trust, which is mainly established by institutionalising the use of laws, rules and other cultural symbols, structures an individual's expectations and motivations of what to expect in unfamiliar situations (Einwiller, 2003:198; Lewis & Weigert, 2008:165).

The concept of systems trust is important to this study because without the 'symbolic media of exchange' such as money being in place, no for-profit organisation would be able to operate (Lewis & Weigert, 2008:164). Furthermore, an organisation can use the concept and benefits of systems trust to develop and institutionalise its own rules, values, cultural symbols and communication with its internal and external stakeholders, in order to establish a sense of familiarity with its stakeholders. This can be achieved by presenting and making visible that which the organisation wants its stakeholders to know it stands for.

Having a sense of familiarity between the trustor and the trustee is a precondition of trust. If there is absolutely no element of familiarity, where the stakeholders (trustors) are completely ignorant of the trustee (the for-profit organisation), the trustors will have no reason to trust (Luhmann, 1979:19). It is essential to note, however, that establishing a sense of familiarity only marks the beginning of the process to build stakeholders' trust in the organisation (Luhmann, 1979:39). Real progress to foster and build trust can only be made when the organisation ensures that its 'self-presentation' and communication is strategically aligned with its ethical corporate identity and is fully ingrained in its business operations, culture and behaviour.

Finally, the for-profit organisation needs to ensure that its behaviour is consistently aligned with what it has promised its stakeholders to be, if it wants to become worthy of its stakeholders' trust (Luhmann, 1979:39). Enduring trust can only be earned when it is warranted by trustworthy behaviour (Hardin, 2002:30; Nooteboom, 2002:75). As the most significant element of corporate trust, this will be discussed presently in more detail, after the rest of the functions have been outlined.

15.1.2 An expression of stakeholders' expectations

The second function of corporate trust is that it can provide insight into how the organisation is performing against its stakeholders' stated expectations. This function is linked to the key element that trust serves as an expression of stakeholders' expectations.

Corporate trust, which is central to all commercial relationships (Tyler & Degoey, 1996:347), is generally expressed as a confident expectation by stakeholders, who are vulnerable to the actions of the for-profit organisation (McKnight & Chervany, 2002:36; Mitchell, 2001:110), that the organisation will protect their rights at best, and not exploit its power to cause harm at least. It is held that a for-profit organisation that measures and tracks stakeholder trust will be able to have a better understanding of its stakeholders' expectations and of how well it is meeting those. Corporate trust can then be described as the "… socially learned and socially confirmed expectations that people have of each other, of the organizations and institutions in which they live, and of the natural and moral social orders that set the fundamental understandings for their lives" (Kramer, 1999:571).

This study regards corporate trust to be based on an underlying assumption of an implicit moral duty on the part of the organisation (Hosmer, 1995:379; Mouzas *et al*., 2007:1021). As such, stakeholders' expectations are then regarded to include that the for-profit organisation will behave in a socially responsible way, and that it is morally bound to protect the rights and interests of its stakeholders to the good of society (Hosmer, 1995:399; Swift, 2001:20). Within a corporate context the quality and diversity of relational experiences are formed in part by organisational elements such as the structure, culture and incentives that influence and inhibit individuals' behaviour. In addition, trust is based on an expectation of technical competence, ethical behaviour, integrity and the benevolence of others (McEvily *et al*., 2008:559).

Trust, which is socially embedded (Tyler & Degoey, 1996:346); exists in context; is shaped by dynamics specific to particular settings; and is therefore generated by the behaviour of the organisation that should be trusted, embodies the stakeholders' expectations, accumulated experiences with and knowledge of the for-profit organisation (Dirks & Ferrin, 2001:456; Gillespie & Dietz, 2009:130; Ingenhoff & Sommer, 2010:342; Wicks *et al*., 1999:101).

As such, it affects how stakeholders interpret the present (and past) behaviour of the organisation, and how they will assess its future actions (Dirks & Ferrin, 2001:456). This assessment in turn influences stakeholders' decisions and behaviour towards the for-profit organisation, which has a direct impact on the performance and sustainability of the organisation, now and in the future.

15.1.3 A mechanism to reduce mutual risk and vulnerability

A third function of corporate trust is related to the fact that trust will only be present under conditions where risk, vulnerability and uncertainty exist (Baier, 1995:200; Baier, 2008:217; Hosmer, 1995:390; Ingenhoff & Sommer, 2010:340; Nooteboom, 2002:5; Swift, 2001:20; Wicks *et al.,* 1999:100), which are in fact the conditions that clearly differentiate trust from confidence, cooperation, predictability and reliability (Blois, 1999:200; Luhmann, 1988:97-98; Mayer *et al*., 1995:713).

This study conceptualises corporate trust as incorporating mutual vulnerability and risk, for *both* the for-profit organisation and its stakeholders (Greenwood & Van Buren lll, 2010:427), and as such the presence of high levels of corporate trust is seen to reduce the vulnerability and risk for both parties.

In the first place, a for-profit organisation's vulnerability rests in the actions that its stakeholders take, or do not take, depending on their level of trust in the organisation. Today's modern world presents organisations with increased challenges. Issues such as the digital revolution, globalisation and the rise of the citizen concept have led to power being dispersed to an extended stakeholder constituency, and for-profit organisations now have to consider and work with stakeholders who are not directly involved or interacting with the organisation, such as activist groups, society and non-governmental organisations (Rangan, 2011:6).

At the same time stakeholder expectations have changed, with an extended emphasis on social issues, related to corporate sustainability, equity and fairness (Iwata, 2009:1; Uslaner, 2010:117). Since stakeholders have the power to act against an organisation that they do not trust, and more importantly, since they can withhold their willing cooperation and support which the organisation needs for its long-term economic sustainability, the organisation itself is increasingly left more vulnerable and at risk to actions from stakeholders (Greenwood & Van Buren lll, 2010:427; Iwata, 2009:1), which means that it needs to take cognisance of its stakeholders' expectations and protect their interests.

In the second place, stakeholders are vulnerable to the actions and behaviour of for-profit organisations and their level of trust in the organisation can either serve to reduce or enhance these feelings of vulnerability. As a human institution of unique power and efficiency, the private sector has an immense capability to influence society and the environment and provide opportunities for equitable and sustainable economic growth for all (Adams, 2006:13; Jamali, 2006:810).

The impact that the private sector can have on the global economy is evident from the world-wide recession in the first decade of the twenty-first century, which resulted from a corporate governance crisis among leading financial institutions (Uslaner, 2010:110-111). This has led to an increased consciousness of the severe risks, brought about by widespread societal actions that were incompatible with sustainability, facing the economy, society and environment in the twenty-first century (Bañon Gomis *et al*., 2011:173; Jones, 2007:52; Pirson, 2009:1).

The fact is that for-profit organisations are a powerful force in today's postmodern society (Perrow, 2000:469), and this leaves all their stakeholders at risk, and vulnerable to the commercial and social actions of these organisations (McKnight & Chervany, 2002:36; Mitchell, 2001:110). However, existent literature notes that the presence of trust can help reduce stakeholders' feelings of vulnerability and fear of opportunistic action by the for-profit organisation, and so increase the likelihood of their voluntary support of the organisation (Hosmer, 1995:390; Ingenhoff & Sommer, 2010:340; Mayer *et al*., 1995:711; Swift, 2001:20).

15.1.4 <u>An effective way to increase voluntary cooperation</u>

A fourth function of corporate trust is that it can serve as an effective mechanism with which an organisation can increase the voluntary cooperation of its stakeholders, as well as the benefits resulting from that cooperation, in a relationship where the mutual benefit to the parties is assumed (Hosmer, 1995:390; Swift, 2001:20).

A level of trust or goodwill between the trustor (stakeholder) and trustee (organisation) is regarded as central to making the commercial relationship or transaction work (McKnight & Chervany, 2002:49; McPhee & Zaug, 2001:581; Swift, 2001:19; Tyler & Degoey, 1996:345). However, within the framework of responsible corporate citizenship as posited in this study, the concept of trust is regarded as imperative, not only in the direct commercial transactions of a for-profit organisation, but also in all the interactions and the relationship it has with its stakeholders, which are determined and influenced by the manner in which the for-profit organisation conducts its overall operations (Marsden & Andriof, 1998:338).

It is believed that stakeholders will be more willing to rely on the organisation if they have first-hand knowledge of and a belief in the protective structures that the organisation has in place, such as processes, procedures, guarantees, contracts, regulations and legal recourse processes as well as the perception that the situation in the organisation is normal, proper, fitting and in good order (Einwiller, 2003:198; McKnight *et al*., 1998:479; McKnight & Chervany, 2002:48; Swift, 2001:19).

Conversely, further to the elements of calculated expectations, trust in a corporate context also encompasses a non-calculative element – a 'leap of faith', which recognises the obligatory rationality of organisational life on the one hand and the uncertainty of organisational life on the other (Bachmann, 2006:395; McEvily *et al*., 2008:559; Möllering, 2006:370-371).

It is particularly in the latter situation where the presence of trust, based on the consistent and ethical behaviour on the part of the organisation, plays a critical role. The proposition is then that the presence of trust can positively and economically benefit a for-profit organisation, because it creates or enhances the conditions under which certain outcomes are likely to occur, such as the voluntary cooperation, support and goodwill of its stakeholders, which are favourable to achieving organisational outcomes like cooperation and higher performance (Dirks & Ferrin, 2001:450, McEvily *et al*., 2008:557).

15.1.5 A prerequisite for success that is difficult to enforce

The fifth function of corporate trust is that it enables a for-profit organisation to meet a condition that is a critical prerequisite for its sustainable economic success, one that is difficult to enforce (Hosmer, 1995:391; Mayer *et al*., 1995:710).

In order to minimise the risks inherent in relationships within a corporate context and avoid the consequences of broken trust, several mechanisms and legislation have been developed over time to regulate, enforce and/or encourage compliant actions within these relationships (Mayer *et al*., 1995:710) and deter businesses from acting fraudulently, unethically or irresponsibly towards society (King, 2009:9). In South Africa, corporate governance is guided by the Companies Act (No. 71 of 2008), as well as the *King Code on corporate governance for South Africa* (King lll).

In much of the existent literature on trust, emphasis is placed on considering and recommending enforcement procedures, such as legal or regulatory requirements, market contracts and hierarchical controls, only to ultimately find these legalistic control mechanisms wanting and ineffective (Hosmer, 1995:392; Mayer *et al*., 1995:710). Instead, it is held that the development of mutual trust between an organisation and its stakeholders is a more useful mechanism that can enable more effective and authentic relational experiences (Mayer *et al*., 1995:710; Nooteboom, 2002:103).

A stakeholder's knowledge of and belief in the predictability of the organisation's behaviour, based on his evaluation of the organisation's identity, credibility and reputation, is then held to be a more cost-effective and efficient mechanism to engender stakeholder trust (Ingenhoff & Sommer, 2010:341; Möllering, 2006:367; Rangan, 2011:4; Vanneste *et al*., 2011:23).

Trust therefore plays a key role in the effort to put sustainable business practices in place (King, 2009:21).

15.1.6 <u>An assumption of an acknowledged duty to protect</u>

A sixth function of corporate trust is that it provides stakeholders with a broader assurance that the for-profit organisation will consider their interests as well, even in uncertain circumstances. This function is linked to the assumption of an acknowledged duty on the part of the for-profit organisation to protect the rights and interests of stakeholders, in other words to meet its stakeholders' expectations as set out earlier.

This acknowledgement is regarded not merely as a negative promise not to harm the interests of the trustor, but rather as providing "… a positive guarantee that the rights and interests of the other party will be included in the final outcome" (Hosmer, 1995:392).

Corporate trust is then seen to be based on an underlying assumption of an implicit moral duty on the part of the organisation (Hosmer, 1995:379) to protect the rights and interests of its stakeholders to the good of society (Hosmer, 1995:399; Swift, 2001:20). Since it is taken that a for-profit organisation will accept its duty to behave in a socially responsible way as a responsible corporate citizen, as part of its pursuit to create and ensure a long-term economically sustainable business, stakeholders who trust the organisation to have accepted this duty are more likely to trust and support it.

This is particularly significant if one takes into account that trust is a dynamic and continuous variable, rather than an either/or phenomenon. On the wide spectrum of trust, the levels of trust that stakeholders have in an organisation can vary substantially within and across relationships as well as over time, and as relationships unfold stakeholders update their information and decisions to trust the organisation (Wicks *et al.*, 1999:101).

Research has shown that trust and confidence in the organisation is a key priority for stakeholders, second only to the organisation's quality of products and services (King, 2009:10). Since trust serves to generate supportive behaviour on the one hand and prevent unsupportive behaviour on the other, it helps to establish, support and maintain a sustainable and long-term relationship between the organisation and its stakeholders (Ingenhoff & Sommer, 2010:339; King, 2009:9).

15.1.7 An evaluation of the organisation's trustworthiness

The last function of corporate trust is linked to the most important element of corporate trust as advanced by this study, which is that it represents the knowledge of or belief in the predictability of the organisation's behaviour, based on the stakeholders' evaluation of the organisation's credibility and integrity (its trustworthiness).

It is then held that a for-profit organisation that measures and tracks stakeholder trust will be able to have a better understanding of the level of trust that its stakeholders have in it, and through their evaluation of the organisation's perceived trustworthiness, the leaders of the organisation will have greater strategic insight into its own performance and risks that need to be addressed.

This view is underscored by the philosophy of King lll, which centres on the role of the leaders and their challenge of ensuring the economic sustainability of their organisation (King, 2009:10-11). It is argued that to achieve this, it is imperative for an organisation to create trust between itself and all of its stakeholders, without whom it would not be able to create and a viable business and society (Gao & Zhang, 2006:737).

While a number of requirements have been proposed, which a for-profit organisation has to meet in order to earn the trust, approval and commitment of its stakeholders, trustworthiness, defined as *being worthy of having trust placed in one*, is believed to be *the* most significant factor that influences trust in a for-profit organisation (Li & Betts, 2004:7; McEvily *et al*., 2008:559). As such, trustworthiness is now discussed.

16 TRUST AND TRUSTWORTHINESS: TWO SIDES OF THE SAME COIN

16.1 AN INTRICATE RELATIONSHIP BETWEEN THE TWO CONCEPTS

The concepts of trust and trustworthiness are not the same, although they are intricately related, with the former depending upon an expectation of the latter (Casson & Della Giusta, 2006:346; Ingenhoff & Sommer, 2010:341; McEvily *et al*., 2008:559; Stout & Blair, 2001:17; Vanneste *et al*., 2011:14). As with trust, trustworthiness is also confined to some respects, under certain conditions (Nooteboom, 2002:38).

Trustworthiness, defined as *being worthy of having trust placed in one*, is believed to be a key factor that influences trust (Casson & Della Giusta, 2006:346; Li & Betts, 2004:7; McEvily *et al*., 2008:559). According to Ingenhoff and Sommer (2010:341), "… the decision to trust is based on the trustworthiness of the other person, i.e. the trustee". The difference between these two concepts is then that perceived trustworthiness (trust) is a belief that trustors have about the trustee, while trustworthiness relates to the characteristics of the trustee, which show him to be worthy of the trustor's trust (Casson & Della Giusta, 2006:346; Li & Betts, 2004:7; McEvily *et al*., 2008:559).

While trustworthiness then relates to the objective characteristics of the trustee, perceived trustworthiness (trust) is a subjective expectation and belief about the trustee (Li & Betts, 2004:7). As trust is defined as *an expectation*, the differentiation between trustworthiness and trust is "… situated in the actual versus the perceived intentions, motives and competencies of the trustee – the former being trustworthiness and the latter being trust" (McEvily *et al*., 2008:559).

As Blois (1999:202) and Swift (2001:22) point out, trust is a situational factor, an outcome, of relationships whereas trustworthiness is a quality displayed by the parties which engenders trust. The focus is therefore placed on the importance of internal factors, such as the intrinsic character, identity and values of the trustee that produce his trustworthiness, and which in turn encourage the trustor's trust in the trustee as a situational outcome (Blois, 1999:202; Stout & Blair, 2001:8; Swift, 2001:22).

Trust can thus not be enforced – a trustee can only earn it on the basis of his own trustworthy behaviour (Hardin, 2002:30; Vanneste *et al*., 2011:13). Trustworthiness is therefore believed to be a key factor that influences trust, which means that trust is not sustainable without trustworthiness (Li & Betts, 2004:7; McEvily *et al*., 2008:559). Since these are two distinct constructs, the terms 'trust' and 'trustworthiness' can therefore not be used interchangeably.

16.1.1 Trustworthiness in a personal context

With personal trust, a trustor has to rely on getting to know and trust the trustee based on the personality that the trustee presents of himself, and the behaviour associated with this. Luhmann (1979:39) refers to this as self-presentation, which includes that which an individual wants to be known of him and which he makes socially visible. When the trustee is consistent in his behaviour and stands by what he has been presenting about himself, he becomes worthy of trust. With personal trust, human actions are then perceived in general as being personally determined, and trust is then founded on the motivation attributed to behaviour (Luhmann, 1979:41).

Trust is therefore viewed as a social occurrence in that an individual may choose to limit or enhance his trustworthiness toward another individual, group or an organisation (McEvily *et al*., 2008:559; Mitchell, 2001:113; Möllering, 2006:369). Trust is therefore seen as an aspect of relationships, one that varies within persons and across relationships (Schoorman *et al*., 2007:344).

16.1.2 Trustworthiness in a corporate context

From a corporate perspective it is important to note that a for-profit organisation cannot command or enforce stakeholders' trust (Blois, 1999:208; Hosmer, 1995:391; Swift, 2001:22), it also has to earn it. However, while it is not possible for an organisation to make a stakeholder trust it, it is possible for the organisation to demonstrate its trustworthiness to its stakeholders, which may then make it possible for them to trust it.

Similar to personal trust, where trust is a result of getting to know and trust the trustee based on the personality that the trustee presents of himself as well as the trustee's consistent behaviour associated with his self-presentation, a for-profit organisation has to communicate and build a relationship with its stakeholders – it has to 'present' itself so that its stakeholders can get to know what the organisation stands for.

This is where corporate communication, corporate image and reputation-building activities (Nooteboom, 2002:75; Nooteboom, 2006:249) fulfil key functions, but in order to ensure that these activities contribute to demonstrating the organisation's trustworthiness, it is critical for the messages about a for-profit organisation and the manner in which it presents itself to be consistently integrated and aligned with the identity and values of the organisation (Pirson & Malhotra, 2008:10) as an ethical and responsible corporate citizen. Repeated inconsistency in messages or self-presentation will break down the image of trustworthiness that it wants to portray.

However, while this is important, it is also emphasised that it is the behaviour of the organisation, which should also be consistent with what it presents of itself to its stakeholders, which will ultimately earn stakeholders' trust. An inconsistency in words is then regarded to be damaging to the concept of trustworthiness, whereas an inconsistency in actions is deemed to be destructive to trustworthiness. The key point here is that trust can only really be earned on the basis of consistent trustworthy behaviour (Hardin, 2002:30; Nooteboom, 2002:75).

A cautionary note needs to be put forth at this stage on what has been presented above, namely that consistent and aligned messages and behaviour lead to trustworthiness. While this is true, a subtle yet vital element is missing, namely the moral element in the actions of the organisations. If this moral quality is not an innate characteristic of the organisation, stakeholders' trust (their belief about the perceived trustworthiness of the organisation) is not sustainable (Greenwood & Van Buren lll, 2010:426; Li & Betts, 2004:7; McEvily *et al*., 2008:559).

Organisational trustworthiness can therefore be viewed as a collective construct – as "… a sense-making heuristic originating at the level of individuals' perceptions but that, in the aggregate of collective impressions, can operate as a shared reputation (of) the organization" (Gillespie & Dietz, 2009:130). This view is shared by Mayer *et al*. (1995:728), who note that "… a reputation evolves from patterns of previous behaviour".

Much of the existent literature notes that consistent trustworthy behaviour by the organisation results in a good corporate reputation (Hosmer, 1995:386), and holds that this is why it is critical for organisations to understand and embrace the close interrelationship between trust and reputation. The difference between having a good reputation and being trusted is subtle but important (Blois, 1999:208). While an organisation with a good reputation can be relied upon to behave in a manner that is consistent with its reputation (i.e. that it is trustworthy in this regard), it might not be trusted to behave ethically under uncertain circumstances (Swift, 2001:23).

It is for this reason that this study posits the view that a for-profit organisation that wants to ensure its own economic sustainability needs to do more than just build a stellar reputation and consistently act in alignment with it. If it wants to earn its stakeholders' trust it has to *become* a moral, ethical and responsible corporate citizen, it needs to mould its identity and character on the very values that it espouses (Pirson & Malhotra, 2008:10), and if this is then consistently demonstrated in word and in deed, its stakeholders will recognise that the organisation can be trusted to act in a similar manner (i.e. moral, ethical and responsible), even in uncertain circumstances, and even when it is not to its immediate, short-term benefit (Nooteboom, 2002:11).

According to Moss Kanter (2011:71), when the leaders think of their organisation as a social institution it "…generates a long-term perspective that can justify any short-term financial sacrifice to achieve the corporate purpose and to endure over time". She also observes that "… great companies are willing to sacrifice short-term financial opportunities if they are incompatible with institutional values". It is held that a for-profit organisation that becomes known as one that will always take action based on its internalised value system, even if it is not instantly economically viable, will become worthy of its stakeholders' trust (Nooteboom, 2002:11).

Stout and Blair (2001:8) define trustworthiness as *"… an unwillingness to exploit a trusting person's vulnerability even when external rewards favor doing so".* The focus is therefore placed on the importance of internal factors, such as the intrinsic character of the trustee, which produces its trustworthiness, and which in turn encourages trust in it.

Trust and trustworthiness are consequently closely linked, with the former depending upon an expectation of the latter (Stout & Blair, 2001:17; Vanneste *et al*., 2011:14). Stakeholders, especially when they do not have legal or contractual power, must rely on the trustworthiness of a for-profit organisation to satisfy themselves that the organisation will fulfil its moral obligations and not abuse its power towards them and the greater society (Greenwood & Van Buren lll, 2010:425).

The point made here is that corporate trust develops not just on the basis of consistent behaviour, but rather on the basis of consistent behaviour by a for-profit organisation that consistently fulfils its moral duty in particular (Swift, 2001:22-23). As such, it is held that trust actually develops on the basis of trustworthy behaviour by an organisation that can be trusted to consistently fulfil its *moral* duty (Mouzas *et al*., 2007:1021; Swift, 2001:22-23) as an ethical, responsible corporate citizen (King, 2009:10; Linthicum *et al*., 2010:163), to the good of society, and therefore in the longer term, to its own good.

A for-profit organisation can only display its trustworthiness through the consistent moral and ethical behaviour of its members, which sends cues to stakeholders about the for-profit organisation's integrity (Gillespie & Dietz, 2009:130), and about how well it is fulfilling its role as an ethical, responsible corporate citizen (King, 2009:10; Linthicum *et al*., 2010:161). This positions the philosophy of King lll, which emphasises the importance of effective leadership in a for-profit organisation and their key challenge of instilling a culture of ethical and trustworthy behaviour in everything it does (King, 2009:10-11). As Nooteboom (2002:85) puts it: "Trust and trustworthiness is not something one can install or inject … To force trust is like forcing spontaneity: if it worked it would not be genuine."

Since corporate trust can only be earned on the basis of trustworthy behaviour, it means that trust can only be sustainable when a for-profit organisation chooses to enhance its trustworthiness toward its stakeholders (Fukuyama, 1995:26; Hardin, 2002:30; McEvily *et al*., 2008:559; Mitchell, 2001:113; Nooteboom, 2002:75). Trustworthiness, defined as *being worthy of having trust placed in one*, is therefore believed to be the most significant factor that influences trust (Li & Betts, 2004:7; McEvily *et al*., 2008:559). As such, the concepts of corporate trust and corporate trustworthiness are not the same, and cannot be used interchangeably.

17 THE IMPORTANCE OF CORPORATE TRUST

The prior discussion regarding the distinction and intricate connectedness between the concepts of trust and trustworthiness serves as a point of departure to outline the importance of trust in a corporate context (McEvily *et al*., 2008:559).

Nooteboom (2002:2) notes that although the field of economics has begun to recognise the importance of trust, it still "… tends to underestimate its complexity and to misconstrue it". Trust in a for-profit organisation is regarded as an economical imperative, since it builds and supports long-term supportive relationships between the organisation and its stakeholder groups whilst preventing disruptive behaviour. As such, it is seen to be a conclusive factor for the long-term economic success and sustainability of a for-profit organisation (Ingenhoff & Sommer, 2010:339).

However, it is also prudent to note that an excess of trust can be harmful to an organisation. As with individual trust, there can be a number of reasons for excessive trust, including naivety, ignorance, cognitive immaturity, impulsiveness or greed, where the present is overemphasised relative to longer-term adverse effects. Overconfidence, stemming from an excess of self-trust by the leadership in itself, may also lead to an underestimation of the power of others to cause the organisation harm, whereas a lack of self-confidence may cause the leadership to underestimate the value of the organisation, thereby overestimating its risk and dependency, which in turns leads to an excessive tendency towards mistrust (Nooteboom, 2002:145-146).

17.1 FIVE REASONS FOR TAKING CORPORATE TRUST SERIOUSLY

As the rationale for arguing that corporate trust fulfils a pivotal function, the following reasons are offered as to why corporate trust needs to be built and sustained:

17.1.1 Stakeholders have the power to act, for or against

It is held that in today's postmodern environment the stakeholders of a for-profit organisation will not just passively withdraw their own support when their trust in the organisation has been violated, but that they are more likely to actively work at influencing others to also withdraw their support and cooperate in taking assertive action against the organisation (Jones, 2007:28-31). This, in turn, will put the long-term economic sustainability of the for-profit organisation at risk.

While stakeholders are vulnerable to the actions and behaviour of a for-profit organisation, it is important to note that they are not powerless. Wood (2002:71-72) highlights that for-profit organisations need to view themselves "… as a part of the greater society in which and by which they are allowed to exist". Since a for-profit organisation earns the necessary approval for its business operations from its stakeholders, the self-same stakeholders can decide to withdraw their approval – their sanction – of the for-profit organisation's operations, should they believe that the organisation is in violation of its social contract with the wider society, which provides the organisation its rightful status in society (De la luz Fernández-Alles & Valle-Cabrera, 2006:503; Di Maria & Iwata, 2007:11; King, 2009:21; King *et al*., 2010:292; McPhee & Zaug, 2001:577; Pirson, 2009:23; Swift, 2001:21).

This argument is supported by the following views in King lll: an organisation earns its 'licence' to operate from its stakeholders (King, 2009:22), it is the credible actions of an organisation, more than its communication, that shapes the perceptions of stakeholders (King, 2009:100), and stakeholders are regarded to be the ultimate compliance officers of a for-profit organisation (King, 2009:9), because they have the power to withdraw their sanction and support of a for-profit organisation that has violated public trust (Fukuyama, 1995:23).

One of the main sources of their empowerment comes from the significant technological advancements and developments that are characteristic of modern-day life. Technology has not only shrunk distances; made access to an almost unlimited amount of information possible; aided masses of people to track corporate activities, share knowledge and insights and communicate virtually instantaneously with one another (Gabriel, 2001:23; Moon & Muthuri, 2008:16; Perrow, 2000:470); it has also liberated and enabled the average individual to reclaim his power within the community (Fogarty & Dirsmith, 2001:254; Fukuyama, 1995:23).

Technology also means much more than transparency, "… it is changing how power is concentrated, and diffusing it" (Rangan, 2011:7). O'Connor (2001:55) also notes how the Internet has shifted the balance of power of voice, which has led to corporate reputations increasingly being defined not by what organisations do or say, but by *"… how others perceive and respond to their actions and words, by who they think the organisation is and what it stands for"* (Pirson & Malhotra, 2008:10).

According to the International Institute for Sustainable Development (IISD), global connectivity in 2009 exceeded predictions, with 60% of the world's people having a mobile phone and 25% having Internet. The ISSD noted in 2009 already that social networking was "… directly influencing citizen engagement, from the Obama presidential campaign to the contested Iranian election" (IISD, 2009).

17.1.2 <u>Stakeholders are reclaiming their role as citizens</u>

Modern-day society sees individuals progressively embracing their roles as citizens rather than just as mere consumers. The citizen concept is "… essentially a political concept, defining individuals' standing within a state and a community, according the rights and responsibilities of who believe in their inalienable rights to hold opinions and views" (Gabriel, 2001:24). The underlying presumption is that each individual is an intrinsic part of a whole – a system of community – and as such an individual is unable to achieve decisive individuality and happiness except as a member of the bigger system (Gabriel, 2001:24).

One of the key reasons for this revival of the role of the individual as a citizen, who is someone who cares about a goal superior to his own needs, chooses to embrace social obligations in the decisions and choices he makes and feels compelled to criticise in the name of the community (Gabriel, 2001:25), is the fact that people in the twenty-first century have become disillusioned and dissatisfied by the adverse impact of big businesses on society to date (Pirson, 2009:5) and as such they are reclaiming their power as average individuals within the community (Fogarty & Dirsmith, 2001:254).

Commenting on the economic crisis in the United States of America during 2008, Uslaner (2010:111) observes that the economic collapse was widely labelled as a crisis of trust from an outraged public. He also quotes the *Economist's* columnist Lexington, who wrote: "The most popular targets of public anger are the greedheads and incompetents who plunged the country into economic meltdown."

The fact that this crisis in the USA ultimately led to a global economic recession in 2009 extended this public outrage against monomaniacal profit-seeking businesses on a universal scale (IISD, 2009). Perrow (2000:470) argues that there is a possibility that a "… revulsion against wealth polarization will take place", similar to those against racial discrimination in the 1950s and gender inequity in the 1960s. Overall, the criticism levelled at current capitalism is that it fails to be life-conducive, since it is seen to be insufficiently set up to fulfil authentic human needs or, in humanistic terms, it fails to make 'humans the measure of all things' (Pirson, 2009:2).

17.1.3 Stakeholders demand a different approach to business

The early twenty-first century is characterised by an erosion of stakeholder trust in the private sector and its leaders, as stakeholders are increasingly becoming aware of the power imbalance between the private sector and society at large, which is at the receiving end of the negative impact of the private sector's 'business as usual' profit-seeking approach and actions (Pirson, 2009:24, Rangan, 2011:8).

Based on this, the early twenty-first century is then also witnessing an increasing demand from stakeholders of for-profit organisations to adopt a fundamentally different approach to conducting their business. Stakeholders are now demanding of the private sector to consider the long-term impact it has on society, and that it should view its impact and contribution in a more holistic manner, by moving beyond a singular focus on economic matters and including social and environmental considerations as well.

This study posits that a for-profit organisation that fails to address these issues places its own long-term economic success and corporate sustainability in a perilous position (King, 2009:61; Moon *et al.*, 2003:14; Pirson, 2009:5; Porter & Kramer, 2006:81; Wood, 2002:63-64). As such, it is held that any organisation that wants to continue doing business and growing economically, now and in the future, therefore needs to carefully consider the impact of its decisions and behaviour in terms of achieving its immediate economic goals as well as in terms of ensuring its own long-term sustainability.

In deliberating what for-profit organisations need to do to perform in this environment, to be able to report results that are consistently above and beyond what might be expected, Rangan (2011:8) proposes four key elements, namely justice, efficiency, diversity and integrity, which he collectively dubs JEDI. Even though efficiency will remain an important element in performance, Rangan (2011:8) suggests that justice "…will have a prerogative over efficiency ... when we make our reckoning of the 21st century".

For-profit organisations then need to start incorporating considerations of ethics and justice in their decision-making and operations (Rangan, 2011:8). This element links to the integrity element of performance suggested by Rangan, which closes the loop to highlight the focus that needs to be placed on trust, and the intentions of an organisation, which – if it wants to earn its stakeholders' trust – needs to focus on more than just efficiency and profit. Rangan (2011:8) concludes his overview of these four performance elements by saying: "We have lived for a long time in a compliance culture which avoids errors of commission, but the best companies now worry about errors of omission."

It is then held in this study that an organisation that omits to regard stakeholders' demand for a new and different approach to business, and continues to focus only on improving its efficiencies in order to increase its profits, will put its own long-term economic survival at risk. This links with the focus that needs to be placed on issues of ethics and integrity, which will earn stakeholders' trust.

17.1.4 <u>Ethics to be brought back into the world of business</u>

This researcher's considered view is then that a for-profit organisation that wants to foster and build trust in itself will consider the impact of its decisions and behaviour on its stakeholders from within an ethical framework (Jones, 2007:20).

This is because every decision, every choice made, will have a series of intended and unintended consequences throughout the organisation and its social environment. Argandoña (2008:442) holds that these consequences will then change the organisation, by altering its attractiveness and, more importantly, the unity of the organisation, which will either strengthen or weaken it "… to the point of annihilation".

Based on the view of Pérez López that "… human organizations must submit to the laws that govern human behaviour"; that is to ethics (Argandoña, 2008:435; Fukuyama, 1995:25), it is then posited that ethics should be brought back into the world of business and economics (Jones, 2007:8,20). This suggestion is also based on the understanding that a culture of compliance, which is rooted in avoiding legal sanctions, leads to mediocrity, whereas a culture of commitment, rooted in the concept of self-governance in accordance with a set of guiding ethical principles, can lead to inspired human excellence and distinction (Paine, 1994:108,109).

Fukuyama (1995:26) concurs that the most effective organisations are those based on "… communities of shared ethical values" – in other words those that have managed to create strong social capital in their organisations. Social capital is defined as *"… a capability that arises from the prevalence of trust in society or in certain parts of it".*

However, Fukuyama (1995:27) notes that such a culture, such a kind of moral community cannot be attained through a rational decision or a rational action, since it necessitates a propensity to the moral norms of the organisation as a society. This can only be acquired if these moral virtues form part of the social identity of the organisation, and not just of a few individuals within it. Furthermore, since social capital is based on ethical habit, it is also harder to modify or destroy (Fukuyama, 1995:26-27).

In this study ethics is then held to be the set of guiding principles to be used to create a culture of commitment and excellence in a for-profit organisation (Jones, 2007:8). When ethics is the driving force of a for-profit organisation, ethical values shape the very design of the organisation, ethics provides a common framework of reference for the decision-making processes of the individuals in the organisation and it serves as a unifying force across the different functions, roles and units in the organisation.

As such, Paine (1994:109) holds that organisational ethics helps define what a company is and what it stands for. Ethics helps to define an organisation's identity and culture, and this is intricately linked to trust. Fukuyama (1995:33) notes that social capital, as "… the crucible of trust and critical to the health of an economy", rests on cultural roots.

Profitability is certainly a necessary condition for an organisation's long-term survival, but it is not the organisation's purpose. According to Argandoña (2008:441), the essential and appropriate condition for an organisation "… to really exist is that there (is) a group of people who are motivated to belong to that organization, with all that such belonging implies for them". Argandoña (2008:441) also observes that this suggests that an organisation's objectives must consequently be oriented to "… conserving and integrating those motivations, [as] otherwise the organization would *disintegrate* [own emphasis]".

In further elucidating this argument, Argandoña (2008:442) observes that, in order to survive, an organisation should take care to ensure that it creates a culture where its decisions, and its subsequent behaviour, meet at least some of the minimum requirements that motivate people's contribution to the organisation. While it is not explicitly stated, it is assumed that Argandoña (2008:441) is only referring to employees (to individuals who belong to the organisation) here.

However, in line with the focus of this study, Argandoña's argument is extended to include all the stakeholders of an organisation, who, because of their direct interest, involvement or investment in the organisation, or because they may be affected or harmed by the decisions of the organisation or may in turn affect or harm the organisation and its operations (Hatch & Schultz, 2008:192-193; King, 2009:60; Steyn & Puth, 2000:5) can be regarded as belonging to, as forming a part of, the organisation.

Paine (1994:109-112) cites three examples of for-profit organisations that effectively brought ethics back into business with remarkably positive effects. For example, Wetherill Associates Inc. (WAI) has seen its revenue grow from just under $1 million in 1980 to nearly $98 million in 1993. This happened in an industry with little growth, "… one in which kickbacks, bribes and 'gratuities' were commonplace", and one in which WAI entered with an ethical approach, which led to it being labelled as an 'upstart' by industry sceptics.

According to Paine (1994:112), the leadership-led commitment to ethical values at WAI, as at Martin Marietta and NovaCare, has contributed to competitiveness, positive workforce morale, as well as solid sustainable relationships with the organisations' key stakeholders. As such, she concludes: "In the end, creating a climate that encourages exemplary (ethical) conduct may be the best way to discourage damaging misconduct."

17.1.5 Role of trust in a corporate crisis

Building an authentic value-based identity and reputation as an ethical trustworthy organisation and earning stakeholders' trust hold significant benefits for an organisation, as discussed earlier. However, these play an even more pronounced beneficial role to sustain the for-profit organisation during a time of crisis (Tyler & Degoey, 1996:345).

According to Webb (1996:289), trust is a central component in even the most routine and trivial activities of organisational life, but "… when an unequivocal or threatened crisis surfaces, the saliency of trust (and estimating trustworthiness) is elevated to higher levels". This is because a crisis significantly increases the levels of uncertainty that the trustors are exposed to. The level of trust and loyalty that was present before the crisis as well as the manner in which the organisation acts during and after the crisis can affect the outcome of the crisis, and the organisation itself, significantly. This is then why Webb (1996:293) describes a crisis as a "… uniquely heated crucible for the creation of trust and for its destruction".

Mishra (1996:262) also holds that a crisis can call into question the survival of the organisation as a system, and that it can lead to either positive or negative outcomes, depending on the nature of the organisation's behaviour during the crisis. An individual or an organisation can have a good reputation, but when serious adversity strikes which damages the trust relationship, the existing levels of trust in the organisation as well as its reputation can either serve the organisation well by sustaining it through the major crisis, or the major crisis, to which Gillespie and Dietz (2009:127) refer as an 'organization-level failure', can ruin its reputation and the stakeholders' trust.

Gillespie and Dietz (2009:128) define an organisation-level failure as *a "… single major incident, or cumulative series of incidents, resulting from the action (or inaction) of organizational agents that threatens the legitimacy of the organization and has the* *potential to harm the well-being of one or more of the organization's stakeholders".* According to Ouchi (1980:140), organisational failure occurs "… only when society deems the basic objectives of the organization unworthy of continued support".

An organisation-level failure is thus a crisis or failure of sufficient magnitude to threaten the legitimacy of the organisation, since the organisation has failed in its responsibility to meet reasonable standards of conduct toward its stakeholders, either through failing to fulfil its mission or one of its essential responsibilities or failing to adhere to generally accepted ethical standards (Gillespie & Dietz, 2009:128).

Thus, the failure is understood as having occurred as a consequence of the actions, or negligent inaction, of organisational representatives who have been authorised or instructed, or whose actions have been facilitated, by the organisation (Gillespie & Dietz, 2009:129). The potential or actual harm that results from this is borne by stakeholders such as customers, shareholders or the wider community, and also directly or indirectly by the employees themselves (Gillespie & Dietz, 2009:128).

The presence of each of these conditions, as well as a combination of these conditions, distinguishes an organisation-level failure from a mere transgression. Furthermore, the magnitude of each failure will differ, depending on the extent of each condition. The degree of harm that it causes can vary from hypothetical (e.g. due to successful product recalls) to real losses in terms of life, investments or jobs. The threat to the organisation's legitimacy can vary from moderate and short-lived to catastrophic, and the organisation may have had partial or total control of the (in)action that led to the organisation-level failure (Gillespie & Dietz, 2009:129).

However, regardless of the magnitude of a failure, if it meets the requirements of an organisation-level failure, it will cause a break in the trust relationship and lead to distrust, to the stakeholder (trustee) losing his trust in the organisation. The magnitude will however play a part in how quickly (if at all) the organisation will be able to repair and restore the trust relationship with their stakeholders after the failure.

Gillespie and Dietz (2009:127) list a number of prominent examples of organisation-level failures where the perception of the trustworthiness of the organisation in question was severely damaged and discredited, including examples of: accounting fraud (e.g. Enron, WorldCom, Parmalat), deceit (e.g. plagiarised and fabricated reports by the *New York Times*), incompetence (e.g. the U.S. Federal Emergency Management Agency's response to Hurricane Katrina), fatal accidents that could have been avoided (e.g. BP's Texas City refinery fire), exploitation of vulnerable people (e.g. use of child labour sweat-shops), and massive compulsory job losses (e.g. IBM in the 1990s).

This study maintains that when adversity of such a magnitude strikes, the difference in the outcome depends in the first place not only on the good reputation of the organisation (Fombrun & Van Riel, 2004:35), but particularly on the level of trust the stakeholders already have in the organisation at the time the crisis occurs.

In the second place it depends on whether the crisis was a result of something that the organisation did (or did not do), which broke that trust relationship and would lead to distrust, or whether the crisis was brought about by something that was outside the organisation's control. In other words, if an organisation's (in)action that led to the crisis is perceived by stakeholders as being deliberate or premeditated, the damage will be worse than if it is perceived as unintended (Gillespie & Dietz, 2009:142; Mishra, 1996:281).

In the third place, the outcome of the organisational-level crisis depends on the way the for-profit organisation handles the crisis (Fombrun & Van Riel, 2004:35); how its leadership acts on and communicates about the crisis. If this is done in a timely, credible and transparent manner, it can actually strengthen trust in the organisation, provided a high level of trust based on a good reputation was already present before the crisis (Gillespie & Dietz, 2009:136).

Open, honest, transparent and timeous communication, focused on acknowledging the incident, expressing regret, announcing interventions and committing resources to redress the situation, will build on the cognitive, emotional and behavioural dimensions of trust which already exist. Stakeholders will reciprocate by believing the corporate messages, and by trusting and remaining loyal to the organisation (Gillespie & Dietz, 2009:139). The Pick ’n Pay case study discussed earlier in this chapter can serve as an example of such an outcome.

However, the view in this study is also that if the crisis was caused by the organisation’s own misconduct, and if there is a lack of open and honest communication, if the organisation does not publicly admit to it or promise to redress it, the outcome would be different. According to Gillespie and Dietz (2009:138), a lack of communication “… conveys a lack of concern and integrity, as well as incompetence”. Stakeholders will then show how they think and feel about the break in trust by withdrawing their support from the organisation, as in the Arthur Andersen case study discussed earlier.

The consequences of organisation-level failures can be severe, and in addition to a reduced willingness on the part of the stakeholders to “… display the kind of trust-informed behaviours that contribute to effective operational functioning”, can also include withdrawal from the organisation, a breakdown or renegotiation of internal and external relationships, and even obstructionism and acts of retaliation (Gillespie & Dietz, 2009:127).

This is one of the main reasons that the close interrelationship between trust and reputation is also emphasised by King (2009:22), who declares that “… the Board should ensure that the company *is* and *is seen to be* [own emphasis] a responsible corporate citizen”. The most important factor here is that the Board should ensure that the organisation is trustworthy (that it can engender trust) and then that it should be seen to be trustworthy (that it communicates its identity, values and strategic intent and actions in order to establish its reputation), so that it can ensure its own long-term economic sustainability. An organisation that focuses only on trying to establish a good reputation without taking care that the organisation is in fact what it says, is one that will not be sustainable when adversity strikes.

This emphasises the link between ethics, corporate trust and trustworthiness, posited as fundamental to corporate sustainability in this study.

17.2 LINK BETWEEN TRUSTWORTHINESS AND SUSTAINABILITY

Corporate sustainability is defined in this study as *the capacity of a for-profit organisation to endure in the long term, in other words to be able to continue and maintain its existing economic operations, performance and success in the future, by earning the trust and support of its stakeholders through its ethical, trustworthy behaviour in line with its ethical, value-based identity and by establishing a reputation as an ethical, trustworthy and responsible corporate citizen* (Bañon Gomis *et al*., 2011:173; Pirson, 2009:8; Vanneste *et al*., 2011:23).

It is then held that the sustainability of a for-profit organisation is dependent on its ability to conduct its operations, to behave, ethically and in such a manner that it meets its own existing needs without compromising the ability to meet its own future needs or the ability of future generations to meet their own needs (King, 2009:61; Porter & Kramer, 2006:81). This presupposes that an organisation should have a regard for the impact of its business operations on the economic life of the community in which it operates, that it should operate ethically and be value-driven (Rushton, 2002:139).

This study then contends that a for-profit organisation's ability to ensure its long-term economic success in a sustainable manner is unequivocally linked to its ability to be trustworthy (Ingenhoff & Sommer, 2010:339). Since trust is viewed as an outcome of the processes by which the various components of the organisation interact with one another and with its environment (Kramer, 1999:570), an organisation needs to appreciate the importance of acting in a way that will foster and build trust in the organisation and its leadership (King, 2009:10), and should do so consistently, whilst delivering on its short-term needs for economic profit (Nooteboom, 2002:11).

The key point here is that a for-profit organisation cannot attempt to placate its stakeholders by merely adopting a façade as a responsible corporate citizen. It *will* be found out; it is only a matter of time. The for-profit organisation's leadership therefore needs to ensure that the organisation actually becomes trustworthy in fulfilling its role as a responsible corporate citizen.

18 CONCLUSION: TRUST AS AN ECONOMIC IMPERATIVE

In this chapter the constructs of trust, corporate trust and trustworthiness have been explored, in order to determine how an organisation can foster and earn its stakeholders' trust.

Following a discussion related to the general trust construct, the nature as well as the cognitive, emotional and behavioural dimensions of trust has been explored. A clear distinction has been made between trust and distrust, as well as between trust and confidence, cooperation, predictability and reliability. Two higher levels of trust, which involve multiple actors and contexts that exemplify a collective attribute, have been discussed. Based on this discussion of institution-based trust and systems trust, the general construct of trust has been extended to a corporate environment, and the conceptualisation of corporate trust as an additional high-level form of collective trust has been proposed.

The concept of corporate trust has been defined and discussed in greater detail. The key elements and nature of corporate trust have been outlined, and seven key antecedents of corporate trust have been identified. In the discussion related to the benefits of corporate trust the dominant perspective has been noted, but the main focus has been placed on advancing an alternative perspective, one that regards the benefits that trust as an organising principle can offer a for-profit organisation.

The barriers to and sources and functions of corporate trust have been discussed. Since corporate trust represents its stakeholders' evaluation of the organisation's trustworthiness, the intricate relationship between trust and trustworthiness has been deliberated and defined.

Finally, corporate trust has been positioned as an economic imperative based on five key reasons provided to emphasise the need for and importance of trust in a corporate environment, which is indisputably linked to an organisation's own long-term economic performance and sustainability.

CHAPTER 5

CORPORATE REPUTATION, IDENTITY AND TRUST

"Character may almost be called the most effective means of persuasion."
– Aristotle

1 INTRODUCTION: REPUTATION DEPENDS ON CHARACTER

A credible, sustainable corporate reputation – one that will earn a for-profit organisation its stakeholders' trust and support – is determined by more than reputation-building activities such as accomplished corporate advertising, public relations activities and visual displays to present itself favourably to its stakeholders.

While these and other corporate communication activities certainly play a vital role in familiarising stakeholders with the organisation, this study posits that a reputation that will enhance the opportunities for stakeholders to get to know the organisation, to assess its past behaviour in a positive light, and 'convince' them to trust and support it, is evidently dependent on the authentic identity of the organisation, which it strategically and consistently reveals and presents through its aligned behaviour and self-presentation. Its stakeholders then come to know and form an opinion of the organisation based on its collective, institutionalised self-presentation of its identity, which makes it at once recognisable and distinguishable from other organisations (Hatch & Schultz, 2008:13; Olins, 2003:56).

The key point, however, is that it is not only authenticity and consistency in behaviour and appearance that is important, but rather the intrinsic characteristics of the organisation's identity, based on ethical values and normative rules (Argandoña, 2008:438) that stakeholders can identify with, that will make it worthy of having its stakeholders' trust placed in it (Casson & Della Giusta, 2006:346; Li & Betts, 2004:7; McEvily *et al*., 2008:559).

Since an organisation's decisions and actions cannot always be controlled or predicted, and since it constantly has to deal with unpredicted eventualities, the organisation's reputation (as the result of its past behaviour) provides some information about the organisation and how it has dealt with unexpected exigencies in the past (Blois, 1999:209). In order to trust the for-profit organisation, stakeholders need to have "… a rough sense as to general principles with which unforeseen contingencies will be met" (Blois, 1999:209), and they need to know that the organisation will consistently apply those principles even when its application might not be optimal in the short run or even when it serves no direct organisational objective, "… if doing so helps preserve … the principle" (Blois, 1999:209).

To ensure that the principles that a for-profit organisation consistently applies in its decision-making will lead to a good reputation and stakeholders' trust, it is then posited that the very nature of an organisation's character – its corporate identity – needs to be based on moral values. In particular, this study maintains that only when a for-profit organisation has a trustworthy, ethical, value-based identity, will its stakeholders be able to depend on and trust in its ability to consider their needs and interests in any situation, particularly in uncertain circumstances (Swift, 2001:23).

This suggestion is substantiated by the discussion of the role of ethics and decision-making theory in Chapter 2. Since human decisions cannot be scientifically predicted, the view expressed that only ethics as the 'most profound of all sciences' can predict the consequences of decisions for the improvement of the actual decision-maker is used as basis. By using ethics – the 'law that governs human behaviour' (Argandoña, 2008:435) – as its key decision-making criterion, the organisation will then ensure that its decisions are not just focused on its own short-term interest, but that the valid self-interests of its stakeholders are also taken into account. A reputation in this sense is then actually a reputation for not being opportunistic (Wicks *et al*., 1999:112).

Basically, it is then held that an organisation that defines and institutionalises its corporate identity around its purpose and values, and uses ethics as its guide to consistent organisational decisions and behaviour (Argandoña, 2008:435; Fukuyama, 1995:25; Jones, 2007:8,20) will be able to build a good reputation that will lead to stakeholders' trust (Argandoña, 2008:438; Hosmer, 1995:395). Unless stakeholders, who are vulnerable to the actions of the organisation, believe that they can rely on it to typically act in a manner that will also protect their rights and interests, they will not trust it – and therefore they will not engage in trust-informed risk-taking behaviour to support it (Dietz & Den Hartog, 2006:559-560; Ingenhoff & Sommer, 2010:340; Lewis & Weigert, 2008:157; Linthicum *et al*., 2010:161; McEvily *et al.*, 2008:559; Mouzas *et al*., 2007:1021; Swift, 2001:19).

Since decisions are made not only on the basis of reality itself, but on the basis of their perceptions of reality, whether accurate or not, stakeholders' perception or opinion of the organisation affect the likelihood of supportive behaviours from the stakeholders (Fombrun & Van Riel, 2004:2).

A strong, sustainable corporate reputation earned on the basis of the organisation's ethical character and consistent trustworthy behaviour can then be regarded as a strategic asset, as its reputational capital (Rangan, 2011:4). It gives the organisation credibility and signals to its stakeholders that it can be trusted; that it is *worthy* of trust, which in turn will lead to trusting, mutually beneficial relationships (Swift, 2001:22-23) and, as is argued in this study, to supportive stakeholder behaviour, which will impact positively on the organisation's long-term economic sustainability.

The difference between having a good reputation and being trusted is a subtle but important one, in that a for-profit organisation with a good reputation can be relied upon to behave in a manner that is consistent with its reputation, but might not be trusted to behave ethically under uncertain circumstances (Blois, 1999:208; Swift, 2001:23). It is then held that an organisation that authentically adopts and lives an ethical, value-based identity will not just be able to build a strong corporate reputation, but will in fact be able to earn the trust of its stakeholders, which will result in their continued support for and commitment to the for-profit organisation.

Trust is then considered as an outcome of reputation, provided that the reputation is substantiated in the organisation's ethical corporate identity and congruent trustworthy behaviour (Blois, 1999:200; Casson & Della Giusta, 2006:352; Einwiller, 2003:197; Helm & Gray 2009:66; Hosmer, 1995:386; McKnight & Chervany, 2006:31,41; Nooteboom, 2002:113,141; Swift, 2001:22). Trustworthiness is then regarded as a key attribute of corporate reputation, which in turn is regarded as an antecedent of trust

(Nooteboom, 2002:141; Casson & Della Giusta, 2006:352). Furthermore it is posited that the antecedents of trust should then be the antecedents of corporate reputation.

2 OUTLINE OF CHAPTER CONTENT

A working definition of corporate reputation as conceptualised by this researcher for the purpose of this study is first provided. The rest of the discussion in this chapter then aims to clarify the operationalisation of the corporate reputation construct in this study.

As a point of departure, the existent literature related to the definitions, elements and attributes of corporate reputation is reviewed. This discussion is used to guide the development of a revised conceptualisation and framework of corporate reputation, in preparation for developing a conceptual model to explain and manage the relationship between corporate reputation and trust later on in this study.

First, the developments around the corporate reputation paradigm as well as the existing approaches to define and conceptualise corporate reputation are briefly discussed in order to propose a new approach, called the strategic alignment approach, using the relational perspective (Chun, 2005:93) as the point of departure.

The difference between corporate reputation and identity, culture, branding and image and its relationship with corporate communication are then briefly discussed to clarify the use of these constructs in relation to reputation management.

A brief overview of the relevance of reputation for today's for-profit organisations is then provided. The strategic benefits of a strong corporate reputation, based on the leading views in much of the existent literature, are first outlined before the argument is made that a strong reputation in itself is not sufficient to ensure the sustainability of an organisation, unless it leads to stakeholders' trust. Reference is made to the growing awareness of and focus on corporate reputation by executives and scholars alike, particularly in the wake of the wave of corporate scandals since the turn of the century.

One of the questions that are posed is whether this increasing interest in corporate reputation includes a thorough awareness of the fact that when stakeholders assess an organisation, they do so on the basis of its perceived identity and trustworthiness. The relationship between reputation and trust, as it relates to the sustainability of a for-profit organisation, is then briefly discussed.

In line with the overview of organisational identity theory, as discussed in Chapter 2, the importance of stakeholder identification for the performance and long-term sustainability of a for-profit organisation is then considered. The key dimensions of corporate reputation as currently being presented in the literature are then outlined, in order to highlight the existence of various models with different drivers and views on trust. In making the case for a greater emphasis on and understanding of the role of trustworthiness in corporate reputation, and the role of trust as an outcome of a sustainable corporate reputation, the creation of a single corporate identity and reputation (vis-à-vis multiple reputations) is proposed.

The central and strategic role of corporate communication as both the foundation of and the overarching primary mechanism with which to express and represent an organisation's authentic identity through its culture, image and brand-building activities, in order to enable it to become a trustworthy organisation and establish an authentic corporate reputation, is then discussed, after which the specific link between identity and reputation is reviewed. A functional understanding of this relationship is regarded as vital to inform and clarify the development and proposal of the new strategic alignment approach to conceptualising corporate reputation, in preparation for the development of a conceptual model that explains the relationship between corporate trust and corporate reputation.

The relational approach (Chun, 2005:93) as well as the *Vision-Culture-Image (VCI) Alignment model* developed by Hatch and Schultz (2008:11) is used as point of departure to explain the new strategic alignment management approach to corporate reputation proposed by this study. This in turn forms the basis for a discussion of the key elements that influence the corporate identity-corporate reputation relationship in the new strategic alignment approach as well as the revised reputation management framework, adapted from the *VCI Alignment model*. The key elements (reputation promise, culture, image and corporate identity) as well as the process of this new proposed approach to corporate reputation management are then defined and discussed, and the new *Strategic Alignment Reputation Framework* is offered.

The conclusion to this chapter includes a final overview of the relationship between reputation and trust, in which the importance for an organisation to build a reputation that will earn its stakeholders' trust in order to ensure its own economic sustainability, is substantiated.

3 DEFINING CORPORATE REPUTATION

3.1 A WORKING DEFINITION OF CORPORATE REPUTATION

This study regards corporate reputation to be the opinion that stakeholders form and the assessment they make of an organisation – based on what they believe the organisation stands for and their associations with it – rather than their mere awareness of it (Chun, 2005:105; Fombrun & Van Riel, 2003:230). In this study, corporate reputation is regarded as a means to an end – to lead to stakeholders' trust and therefore to their continued support and commitment to helping ensure the long-term sustainability of the organisation.

Corporate reputation (one that will lead to stakeholders' trust and thus to their continued support and commitment to ensuring the long-term sustainability of the organisation) is defined by this researcher as *the collective assessment that all relevant internal and external stakeholders make of the trustworthiness of an organisation; of its character, which influences their decision to trust and their actions to support the organisation* (Chun, 2005:105; Fombrun & Van Riel, 2003:230).

This researcher holds that the organisation's trustworthiness is demonstrated by its intrinsic normative characteristics as well as the authenticity with which it consistently acts in line with its ethically value-based identity. Stakeholders' opinion of the organisation's character has developed over time based on their direct experiences with the actual behaviour of the organisation, as well as any other forms of communication and symbolism that provide information about the organisation's actions, which shape what they believe the organisation stands for (who and what it is) and the associations they make with it, and about its ability to fulfil their expectations in the future, based on its past and present actions (Barnett & Hoffman, 2008:4; Barnett *et al.*, 2006:36; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29).

The process of managing reputation then refers to the overall activity in an organisation to authentically manage and present its identity – what it stands for – by aligning its actual behaviour (culture) and communication (image) with what it proclaims to its stakeholders to be (reputation promise), in order to build and maintain its desired corporate reputation (Chun, 2005:105; Cooren *et al*. 2011:1152; Davies *et al*., 2010:532).

Corporate reputation is then effectively seen to be about first managing primarily what happens inside an organisation; how authentically it manages its own identity internally and presents itself externally to its stakeholders, in order to familiarise its stakeholders with who and what the organisation is (Luhmann, 1979:19; Pirson, 2009:9) and so mould and influence their perceptions and opinions (Chun, 2005:105; Fombrun, 1997:10; Fombrun & Van Riel, 2004:260) about the trustworthiness of the organisation.

It needs to be highlighted that this researcher's argument for an initial and primarily internal focus in terms of the corporate reputation management process does not mean that the values, expectations and needs of stakeholders are not to be taken into account. On the contrary, this study contends that a for-profit organisation needs to ensure that it incorporates its stakeholders' expectations into its very core – in its vision and values, its very identity. Furthermore, this researcher maintains that an organisation then needs to first focus on creating the kind of organisation that it has promised its stakeholders to be, and that it should only focus on actively communicating its progress in this regard externally once the internal structures and processes that will allow it to evoke stakeholders' trust are in place.

This researcher suggests that a good corporate reputation is regarded to be the result of consistent trust-*worthy* (own emphasis) behaviour (Hosmer, 1995:386), which then influences and reinforces the expectations, and therefore the trust and ongoing supportive behaviour, of its stakeholders. Trustworthiness is therefore regarded as the key precursor to reputation, which in turn is regarded as an antecedent of corporate trust (Nooteboom, 2002:141; Casson & Della Giusta, 2006:352).

3.2 CLARIFYING THE OPERATIONALISATION OF THE CORPORATE REPUTATION CONSTRUCT

There are numerous definitions of corporate reputation, stemming from diverse disciplines such as marketing, communication, strategy, management, economics and accounting (Barnett *et al.*, 2006:33; Chun, 2005:93; Fombrun & Van Riel, 1997:10). These diverse views have led to some confusion between the meanings of the terms reputation, brand, image, identity and trust. This in turn has contributed to the perplexity surrounding the role and function of reputation, for example if it should be regarded as a subset of a corporate brand, as synonymous with corporate image or as the collective outcome of a number of attributes (including trust).

It is outside the range of this study to attempt to explore all the definitive concepts of reputation from the various ontological literatures. However, a comprehensive overview of the reputation construct will follow later in this chapter for the purpose of contextualising the construct of corporate reputation and its relevance to the corporate trust construct, as used in this study. For the immediate purpose, a brief overview of the developments in defining corporate reputation as well as the distinction between reputation and related constructs will be provided, in order to demarcate the exact approach being followed in this study and clarify the operationalisation of the corporate reputation construct for the purpose of this study.

3.2.1 Developments in defining corporate reputation

In the inaugural issue of *Corporate Reputation Review* in 1997, editors Fombrun and Van Riel (1997:10) identified a number of distinct views of corporate reputation, grounded in a diversity of academic disciplines. These authors observed that while each of the disciplines explored different facets of the construct, an integrative definition of the concept was lacking (Fombrun & Van Riel, 1997:6). In examining corporate reputation from an economic, strategic, marketing, organisational, sociological and accounting view, the authors noted that, jointly, these academic literatures suggested that reputations constitute subjective, collective assessments of the trustworthiness and reliability of organisations, with specific characteristics related to corporate reputation (Fombrun & Van Riel, 1997:10).

These characteristics include the assessments of past performance, current ability and future potential, by diverse and multiple evaluators (or stakeholders) who all have diverse criteria and expectations of the organisation. Based on this, the authors proposed the following definition: *"A corporate reputation is a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders."* (Fombrun & Van Riel, 1997:10). As such, these authors hold that it is a measure of a for-profit organisation's relative standing both internally with employees and externally with its stakeholders, in both its competitive and institutional environments.

This definition clearly highlights that corporate reputation is an assessment of the organisation by multiple stakeholders; an assessment of the organisation's past behaviour that influences stakeholders' perceptions about the organisation's future ability as well as their decisions about how to behave towards the organisation in future. However, while Fombrun and Van Riel (1997:7-8) refer to key concepts related to reputation such as culture, identity, image and corporate branding in their discussions of the distinct views of reputation, their definition does not clearly address and explain the relationship between these concepts, nor does it clarify the role of these concepts in the formation of corporate reputation.

Since the early 1990s, when corporate reputation was still a relatively new academic subject (Chun, 2005:91), there has been substantial growth in research and interest in corporate reputation (Barnett *et al.*, 2006:26-27). As such, various schools of thought have developed to explain what corporate reputation is and what benefits it holds for an organisation (Barnett *et al.*, 2006:26-28; Chun, 2005:92).

In their article *Corporate Reputation: The definitional landscape*, Barnett *et al.* (2006:26-38) reviewed and categorised prior existing definitions into three main clusters. The first cluster, namely the Asset cluster, includes all those definitions that define corporate reputation as a resource or an intangible asset that is of financial or economic value and significance to the organisation (Barnett *et al.*, 2006:33). The second cluster, called the Awareness cluster, contains those definitions of corporate reputation that focus on the general awareness or perception of an organisation on the part of observers or stakeholders, but who do not make judgements about it (Barnett *et al.*, 2006:32).

The third cluster, named the Assessment cluster, includes those definitions of corporate reputation indicating that stakeholders form a judgement, an opinion or an assessment of the status of the organisation (Barnett *et al.*, 2006:32). These authors conclude that the cluster of meaning that looks most promising for future definitional work uses the language of assessment and specific terms such as judgement, estimation, evaluation or opinion (Barnett *et al.*, 2006:36).

While this categorisation is very useful, particularly in highlighting the importance of assessment or formation of opinion to corporate reputation, which is in line with Fombrun and Van Riel's definition noted earlier, it does not give a clear enough explanation of which stakeholders need to be considered when examining corporate reputation.

Furthermore, while Barnett *et al.* (2006:28-29) refer to the confusion that currently exist concerning the concepts of identity, image and reputation, their three-cluster categorisation does not clearly address and explain the relationship between these concepts, nor does it clarify the role that these play in the formation of corporate reputation. The inclusion of the Asset cluster may refer more to the *consequences* of corporate reputation, rather than attempting to define it (Barnett *et al.*, 2006:33).

3.2.2 Existing approaches to conceptualise and define corporate reputation

In her comprehensive review of the multifarious definitions in an attempt to offer a clearer distinction of the reputation paradigm, Chun (2005:93-95) proposes a demarcation founded on the stakeholders as the focal point. Based on this, three broad categories – the evaluative, impressional and relational approaches – are identified. This demarcation of the three existing approaches in literature to define and conceptualise corporate reputation will be briefly discussed, in preparation for the proposal of a new approach to the reputation paradigm within the corporate identity/trust framework which follows.

- ***Evaluative approach***

According to Chun (2005:93), one of the three main existing approaches used to examine corporate reputation is the evaluative approach. In this school of thought, which is mainly concerned with shareholders, reputation is considered based on its financial value or on the short-term financial performance of the organisation.

This approach, which is rooted in the areas of strategy and economics, is preoccupied with the economic performance of an organisation, and regards a good corporate reputation as a competitive advantage or an intangible asset. The key stakeholder focus here is on a single or explicit audience whose main interests are the organisation's financial attributes, such as shareholders, the CEO or investment advisers (Chun, 2005:93).

Chun's description of this approach to corporate reputation is similar to the group of definitions that Barnett *et al.* (2006:33) place in the Asset cluster.

- ***Impressional approach***

A second main approach to examining corporate reputation is the impressional approach. In this school of thought, which is mainly concerned with either customers or employees, reputation is considered based on the overall impression these stakeholders have of an organisation. Typical terms associated with this approach include image, identity and personality.

This approach also has mainly a single stakeholder view, with the key focus on either the customers or the employees (Chun, 2005:94). The distinguishing factor here would be the academic discipline in which these definitions are grounded. In the marketing literature the focus is on ideas related to customers and corporate image, while those grounded in the organisational literature focus on the relationship between employees and their organisation (Chun, 2005:93).

Chun's description of this approach to corporate reputation is similar to the group of definitions that Barnett *et al.* (2006:32) place in the Awareness cluster.

- ***Relational approach***

The third main approach to examine corporate reputation is the relational approach. In this school of thought reputation is considered based upon the stakeholder theory which maintains that different stakeholders may have different expectations of an organisation (Chun, 2005:93).

Based on the view that an organisation has multiple stakeholders with multiple opinions, the basic assumption of this approach is that an organisation has many reputations. The relational school distinguishes between internal stakeholders' views, which are rooted in the organisation's culture and identity; and external stakeholders' views, which are rooted in the organisation's image.

However, while this school emphasises differences between the views of its different stakeholders, it also contains the idea that internal and external stakeholder views are linked in the formation of an organisation's overall reputation. As such, it concerns itself with managing the relational gaps or differences particularly between its employees' and customers' views of the organisation, in order to achieve a high level of congruence between these views (Chun, 2005:94).

According to the relational approach, corporate reputation then represents a collective and multi-dimensional construct as an aggregated perception and opinion of its internal and external stakeholders; particularly of its employees and customers. Corporate reputation is then regarded as the equal reflection of the internal and external stakeholders' view and assessment of the organisation (Chun, 2005:95).

Chun's description of this approach to corporate reputation is similar to the group of definitions that Barnett *et al.* (2006:32) place in the Assessment cluster.

3.2.3 A new proposed approach to conceptualise and define corporate reputation

Since the relational approach is based upon stakeholder theory and since it acknowledges that a reputation is the result of the assessment by multiple stakeholders, which includes the views of both internal and all relevant external stakeholders, not just shareholders (Chun, 2005:93; Stout & Blair, 2001:28), the relational approach is used as a point of departure in order to begin to delineate the new approach proposed by this study.

It is maintained that a new approach is required, since it is contended that, within the corporate identity/trust framework of this study, the relational approach is lacking in three main areas: its stakeholder audience focus; its description of reputation as the comparison and equal reflection of the internal and external stakeholders' views and assessments of the organisation; and its basic underlying assumption that an organisation has many reputations, which calls for an organisation to manage its reputation by managing and aligning its internal and external stakeholders' views of the organisation.

In the first place, the existing conceptualisation of corporate reputation in the relational approach is regarded to be limited in its too narrow regard of the stakeholders of an organisation. While employees and customers are certainly important stakeholder groups, this focus still implies that only these typically identifiable and clearly defined stakeholder groups are key. However, based on the definition of stakeholders in this study, which includes *all* stakeholders who are affected by or who can affect the organisation, the stakeholder audience focus is regarded to be much wider – so wide in fact, that it would be almost impossible for an organisation to proactively identify exactly who they are and build relationships with all of them.

This links to the second perceived limitation. In the relational approach, reputation is described as the comparison and equal reflection of the internal and external stakeholders' views and assessments of the organisation; suggesting that the organisation's focus and efforts should mainly be to determine and close the relational gaps or differences in order to manage its stakeholders' perceptions (focus thus external to the organisation itself). In contrast, corporate reputation is described in this study as the collective assessment by all internal and external stakeholders of the trustworthiness of the organisation – of its intrinsic normative characteristics as well as the authenticity with which it consistently acts and communicates in line with its ethically value-based identity.

This suggests that instead of a primarily 'external' focus in managing its reputation by trying to manage stakeholders' perceptions, an organisation should first adopt a primarily 'internal' focus – directing its efforts and time mainly on managing its own identity and ensuring strategic alignment between its ethically value-based identity and everything it does and says. It is posited that an organisation that first concentrates on managing its own accountability to all of its stakeholders in a trustworthy, ethical manner, and ensures that the corporate structures and processes that will evoke stakeholders' trust are in place, will significantly increase its likelihood of building a strong and sustainable corporate reputation that will result in stakeholders' trust.

This in turn links to the third perceived limitation of the existing relational approach to conceptualising reputation. The basic underlying assumption of the relational approach is that an organisation has many reputations which it has to manage, measure and align. In contrast, this study conceptualises reputation by assuming that an organisation should focus on managing a single reputation – one that will result in all its stakeholders assessing it as being an ethical organisation that is worthy of their trust and support. This also implies that the organisation only needs to have one measure, which aims to get feedback from its stakeholders on how well it is collectively managing its own identity, and how trustworthy it is according to them.

Based on this, the strategic alignment approach to corporate reputation management is proposed by this study as a new way in which to conceptualise and define corporate reputation. This approach will be discussed in greater detail later in this chapter, when the key elements of reputation – as defined in the relational vis-à-vis the strategic alignment approach – will be outlined.

This study then regards corporate reputation to be a collective and multi-dimensional construct which is deemed to be the aggregated assessment of the trustworthiness of an organisation by all of its multiple stakeholders. In this sense, this construct is similar to the concept of collective trust (Gillespie & Dietz, 2009:430; Ingenhoff & Sommer, 2010:342; Kramer, 2010:84), which was discussed in Chapter 4.

3.2.4 What corporate reputation is not

Corporate reputation in this study does not mean the same as corporate identity, corporate culture, corporate brand or corporate image.

Corporate identity is defined in this study as *an organisation's inherent character; that which it is, what it stands for and can be held accountable for, and it encompasses the vision and values of the organisation which effectively distinguish it from other organisations – its unique identity* (Balmer & Gray, 2001:979; Barnett *et al*., 2006:28,33; King & Whetten, 2008:195). Fombrun and Van Riel (2003:230) describe corporate reputation as the external reflection of an organisation's internal identity. The leadership's articulation of the organisation's identity and character forms the basis of the promise it makes to its stakeholders, of what they can expect the organisation to be. This study also refers to this as the reputation promise.

Corporate culture is defined in this study as *the actual validation and demonstration of the organisation's identity; of how it translates into actual organisational behaviour* (Blois, 1999:211; Rangan, 2011:4).

Corporate image, which can also be referred to as the 'intended' image, refers in this study to the mental associations that the organisation wants its stakeholders to hold, and as such image is seen as "… the internal collective state of mind that underlies its corporate communications efforts (successful or not) to present itself to others" (Barnett *et al*., 2006:29; Walsh, Mitchell, Jackson & Beatty, 2009:189). An image is then basically defined as *the 'ideal picture' that the organisation presents to its stakeholders, what they want them to see as being "… most central, enduring and distinctive about their organisation" through its communication and reputation-building activities* (Barnett *et al*., 2006:29).

In this study corporate branding refers to both the tangible aspects of branding, such as the organisation's name, logo, slogan and design aspects, or a combination of these, which is intended to identify the organisation and differentiate it from its competitors, as well as the intangible aspects of branding, such as the symbolism used to represent the organisation (Hatch & Schultz, 2008:26). As such, corporate branding is seen to form part of the total corporate image that the organisation projects of itself to all of its stakeholders.

Corporate identity, culture, brand and image are then largely driven by the organisation, whereas corporate reputation, as an assessment that is made about the organisation, is inherently stakeholder-driven (Helm & Gray, 2009:65). Essentially, it is held that while an organisation can shape a corporate identity, culture, brand and image, it cannot control how its stakeholders experience the organisation's behaviour, or interpret the communication they receive from the organisation and about it from external sources.

Based on their total exposure to the organisation, stakeholders will form their own opinion of the organisation, resulting in the formation of the organisation's reputation (Barnett *et al*., 2006:34). Corporate reputation then refers to the mental associations with the organisation that are actually formed and held by the stakeholders, based on their overall experience of the organisation (Walsh *et al*., 2009:189). Reputation is therefore owned by the stakeholders of the organisation, who formulate expectations about the organisation's conduct and then monitor and sanction the organisation accordingly (Helm & Gray, 2009:65).

This study contends that a 'good' corporate reputation in and of itself is not sufficient, unless it results in stakeholders' trust and support, which can only be achieved if its stakeholders consider the organisation to be trustworthy. This is argued to be dependent on the organisation's ethical, value-based identity that stakeholders can identify with, as well as the authenticity and consistency with which it expresses its character, which, in turn, is determined by the alignment between what the organisation promises, does and says about itself.

3.2.5 <u>Where corporate communication fits in</u>

Corporate communication as a construct is viewed by this researcher as being on a different level than the constructs of corporate identity, culture, image and brand – as simultaneously being both the foundation of the organisation's identity and reputation as well as the overarching primary mechanism with which the organisation can establish an authentic identity and corporate reputation through its culture, image and brand-building activities.

The specific communication perspective in this study will be limited to the concept of expressive corporate communication, which focuses on the role of communication to express and represent the organisation's authentic identity, in order to become a trustworthy organisation and establish an authentic corporate reputation (Cooren *et al*., 2011:1153; Fombrun & Van Riel, 2004:177; Gioia *et al*., 2000a:64). This role of corporate communication will be discussed in more detail later in this section.

4 THE RELEVANCE OF CORPORATE REPUTATION

4.1 STRATEGIC BENEFITS OF A STRONG CORPORATE REPUTATION

4.1.1 <u>Current views on the benefits of a strong corporate reputation</u>

Corporate reputation matters. Increasingly, traditional financial indicators are no longer seen as the only indicator of an organisation's progress. According to Zabala, Panadero, Gallardo, Amate, Sánchez-Galindo, Tena and Villalba (2005:59), corporate reputation as a measure of success "… has equalled, if not surpassed, the importance of stock market performance, earnings or the recovery of investments".

Fombrun and Van Riel (2004:20) note that a reputation matters because it affects the strategic positioning of the organisation as a whole. They equate an organisation's reputation to a mirror "… that reflects a company's relative success at convincing upstream, downstream and diagonal stakeholders about the current and future validity of its strategic direction".

Balmer and Greyser (2003c:177) agree. They note that "… a favorable reputation brings distinctiveness and a strategic advantage to a corporation that are not easily duplicated" and they underline the fact that a positive corporate reputation can significantly contribute to profits. Greyser (2003:237) identifies preference for doing business with the organisation and increasing the organisation's value in the financial marketplace as key strategic benefits of a strong corporate reputation.

There are many examples in today's business arena of the conclusive influence that a positive corporate reputation has on organisations (Davies *et al*., 2010:530). According to Mazzola, Ravasi & Gabbioneta (2006:387), recent research has shown how an organisation's good reputation affects its market value, possibly through its positive impact on operational performance and profitability. Furthermore, these authors hold that when an organisation is held in high regard by financial analysts and its institutional investors, it is likely to become an 'investment of choice', thereby enhancing its ability to attract capital and to do it at a lower cost than its rivals. "On the one hand, market perceptions of the company's future prospects tend to influence the level of demand for its shares, hence its market capitalisation. On the other hand, analysts and investors tend to consider well-regarded companies as comparatively less risky. In these cases they seem to be willing to accept higher financial risk for the same level of returns or lower returns for the same level of risk." (Mazzola *et al*., 2006:387).

Using the 2001 results of the *Reputation Quotient*^{SM} (RQ) project, Fombrun and Van Riel (2004:69-70) examined the observed relationship between RQ scores and various key indicators by analysing data of 60 organisations that were measured. Their findings included that, on average, organisations with stronger reputations have "… higher intangible wealth, significantly higher return on assets, lower debt-to-equity ratios, and higher 5-year growth rates, in each case dominating lower rated companies by a factor of nearly two to one". Existent literature then emphasises the value of a positive corporate reputation and the contribution it can make to enhance a for-profit organisation's economic value; reinforce a positive perception of product and service quality; and strengthen customer and employee loyalty (Lloyd, 2007:19).

Fombrun and Van Riel (2004:3) note that organisations that have strong and positive reputations invariably get a larger share of the best job applicants. Einwiller and Will (2001:4) observe that customers do not necessarily choose the cheapest product offer, but regularly buy from branded and widely known retailers even when these do not offer the lowest price. Greyser (2003:238) also notes that a "… related perceived benefit of a strong reputation in terms of business preference is the ability to charge a premium". For example, an organisation like Woolworths in South Africa can charge a premium on its goods, because consumers know the organisation's promise of and reputation for delivering quality products.

However, an incident at Woolworths early in 2012 raised some public ire. The incident occurred when two independent web researchers wanted to check prices at Woolworths (as they did with other retail shops) so that they could place it online to enable consumers to compare prices. Although there was no legal reason to refuse them, they were asked to leave the Fourways Woolworths shop on January 13. A spokesperson for Woolworths said this was because its products were not directly comparable with those of other chain stores.

The public comments that followed mostly deplored the incident, particularly since it created the impression that Woolworths had something to hide, and remarks related to slipping standards and quality which no longer warrant the more expensive pricing have started surfacing (Sapa, 2012). This suggests that even though an organisation can have an excellent reputation, stakeholders react emotionally to its behaviour; they form their own perceptions which in turn influence their judgements, decisions and behaviour towards the organisation (Fombrun & Van Riel, 2004:2-3).

This is particularly important if one accepts the view that corporate reputation can be described as a magnet, which either draws support from stakeholders if they like what they hear and see about the organisation or dispels support from stakeholders if they lose their trust and belief in the organisation (Fombrun & Van Riel, 2004:20). Essentially, it is then held that an organisation's reputation shapes stakeholders' anticipation of how it will behave now and in the future – a good reputation will therefore encourage its stakeholders to rely on the organisation's promises (i.e. to trust the organisation), whereas a bad reputation will warn them at the very least to be cautious (Blois, 1999:209).

4.1.2 A strong corporate reputation without trust is not enough

Balmer and Greyser (2003c:177) emphasise that a favourable reputation can act as a significant safeguard when an organisation is confronted with adverse stakeholder reactions. Greyser (2003:237) also observes that support for the organisation in times of controversy is another key strategic benefit of a strong corporate reputation. The Pick 'n Pay and Johnson & Johnson case studies discussed earlier serve as examples to illustrate this point.

However, this is not always the case, as illustrated by the Arthur Andersen case study discussed earlier, when its once sterling reputation could not safeguard it in the wake of the Enron scandal in 2001. When an organisation loses its reputation, or as posited by this researcher, when it loses the *trust* its stakeholders have placed in it, it can pay an exorbitant price. Arthur Andersen, once one of the biggest and most successful global auditing firms, had to close its doors in 2002 after the Enron scandal in the USA in 2001, in which the auditing firm was involved (Davies *et al*., 2010:531; Fombrun & Van Riel, 2004:19-20; Jones, 2007:184).

This was not due to the fact that the organisation suddenly lost the grounds for its reputation, since it still had its entire personnel complement and other tangible assets, such as its physical, financial and intellectual capital which collectively contributed to its reputation (Fombrun and Van Riel, 2004:32). Instead, it is held that the organisation's ruin was rather due to the fact that it lost its credibility in the eyes of its stakeholders

(Fombrun and Van Riel, 2004:34). It is then posited that it was the loss of the trust that its stakeholders had placed in it (rather than the loss of the organisation's reputation per se) that led to the withdrawal of its stakeholders' support for the organisation, and ultimately to its downfall.

Jones (2007:32) observes that Enron and WorldCom also collapsed in a similar fashion when their illegal actions became public, and when their stakeholders withdrew their support and contributions: "Shareholders sold their stock, banks refused to lend money, and debtors called in their loans."

Fombrun and Van Riel (2004:94) refer to the impact of the wave of corporate scandals that hit the financial markets in 2002, which began with Enron. The impact included a definite and direct effect on the share prices of the organisations in question, as well as a significant indirect effect on perceptions of the corporate sector as a whole due to the loss of public faith (trust) it occasioned. These authors cite an economic analysis done in September 2002, which estimated the indirect cost of the corporate scandals in the USA at that time at over $35 billion. In addition, the study "… further judged that loss of faith [trust] in the transparency of the financial system would produce another 1 to 2.5 percent decline in the economy as a whole".

4.1.3 <u>Growing awareness of relevance of reputation and trust</u>

The severe negative impact of these scandals can possibly help to account for the increase in the focus and attention of executives and scholars on reputation management at the start of the twenty-first century. In 2005, Zabala *et al. (*2005:59-60) reported on a global study which showed that senior executives regard reputation management as one of the leading factors to be considered when formulating an organisation's strategy, second to product and service quality.

In 2006, Barnett *et al.* (2006:26-38) reported on the progress that had been made since 1997 in terms of reputation management research and practices, and particularly in terms of how the study of corporate reputation had intensified at the turn of the century. Their research indicates that during the period 2001 – 2003 the average number of scholarly articles on corporate reputation more than doubled in frequency compared to the year 2000, and that it was nearly five times as large as the average for the period 1999 – 2000. According to them, this indicates the importance of corporate reputation.

However, despite the demonstration of growing awareness of the relevance and importance of corporate reputation, Balmer and Greyser (2003d:356) also note that there are still many people in today's business and academic circles who perceive the relevance, dimensions and importance of corporate meaning (including corporate reputation) to be "… obtuse, ethereal, immaterial, or simply hogwash!"

As such, the question can be asked if today's business leaders as a general rule regard it as critical to ensure that they manage their corporate reputations, and more seriously, if they are fully aware that when an organisation's stakeholders assess it, they do so on the basis of its identity and its trustworthiness. In addition, it can be asked if they fully appreciate the crucial link between their organisation's identity, behaviour and self-presentation and its desired corporate reputation and recognise the need for strategic alignment in this regard. More critically, it can also be asked what leaders need to do to manage their organisation's corporate reputation so that they can realise the strategic benefits of a strong reputation that will lead to engendering stakeholders' trust in and ongoing support for the organisation.

4.1.4 <u>Relationship between reputation and trust: sustainability</u>

The relationship between reputation and trust is patently related. It is posited by this study that an organisation that authentically adopts and lives an ethical, value-based identity will not just be able to build a strong corporate reputation, but will in fact be able to earn the trust of its stakeholders, which will result in their continued support for and commitment to the organisation.

However, it is also presumed that, although it is critical, it is not sufficient for a for-profit organisation just to become a trustworthy, responsible corporate citizen, in that it also has to ensure that its stakeholders are familiar with and sufficiently informed about what the organisation stands for to inform their judgement of the organisation, if it wants to be able to earn their trust and support in maintaining the organisation's sustainability (King, 2009:21,101; Jones, 2007:67-68).

As it is not always possible for stakeholders to directly observe trust-warranting behaviour on the part of the organisation, the stakeholders often have to infer the trustworthiness of the for-profit organisation from the available evidence, such as observable signs from and about the organisation, that the stakeholders believe to be correlated with the unobservable trust-warranting properties of the organisation (Kramer, 2010:93).

These observable signs can include any form of communication and symbolism that a for-profit organisation uses to present itself to its stakeholders, its corporate image (Nooteboom, 2002:75; Nooteboom, 2006:249), as well as any kinds of structural, procedural and social indicators that stakeholders can observe. Kramer (2010:93-94) notes that such signs "… represent, in a sense, proxies for individuating knowledge about specific trustees. In that sense, they resemble stereotypes – but positive stereotypes rooted in a considerable body of converging, supportive evidence of underlying general trustworthiness."

It is within this context that the importance of corporate reputation is situated. In this study corporate reputation is regarded as more than just stakeholders' awareness of an organisation – it is regarded as stakeholders' opinion or assessment of an organisation. As such, corporate reputation then refers to the subjective and collective opinion of all relevant internal and external stakeholders, based on what they believe the organisation stands for (i.e. its identity) and the associations they make with it (Chun, 2005:105; Fombrun & Van Riel, 2003:230).

The need for an organisation to become an ethical and trustworthy organisation and to build its reputation on the back of its ideal identity is in line with King lll (2009:22), who emphasises that "… the Board should ensure that the company *is* and *is seen to be* [own emphasis] a responsible corporate citizen". The most important factor here is that the Board should ensure that the organisation *is* trustworthy (engender trust) and then that it should *be seen to be* trustworthy (build reputation).

In this sense, a corporate reputation provides an organisation with a strategic advantage – it gives the organisation credibility and means it can be trusted (Rangan, 2011:4). However, a good reputation that is not authentic, and is not aligned with what the organisation in fact says it is, will not be sustainable when adversity strikes.

Concepts such as reputation and trust signify that organisations are judged to be responsible and accountable for their actions by various stakeholders (Gao & Zhang, 2006:724; Whetten & Mackey, 2002:396). Reputation is an important dimension of the organisation-stakeholder trust relationship, particularly where the stakeholders do not necessarily have direct experience and knowledge of the organisation. Stakeholders' trust will be based on the assumption that the organisation will act in a trustworthy manner to avoid losing its good corporate reputation, which they know is to the longer-term economic benefit of the organisation (Ingenhoff & Sommer, 2010:341).

In the theories of new institutional economics, reputation has been called a 'hostage' in the hands of the customer. This term implies that reputation is an asset in the hands of an organisation's stakeholders which is built up, shared, and also destroyed among them. To foster and build trust, information to be shared among the organisation's stakeholders should then relate to characteristics and actions that affect their trusting beliefs (Einwiller & Will, 2001:7).

Stakeholders develop their opinion of the organisation over time, and they base their assessment of the organisation's character on their direct experiences with the organisation's behaviour, as well as any other forms of communication and symbolism they receive from the organisation or from other sources, that indirectly provide information about the organisation's actions. These in turn shape what they believe the organisation stands for (who and what it is), and their assessment of its ability to fulfil their expectations in the future, based on its past and present actions (Barnett *et al*., 2006:36; Caruana, 1997:109; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29).

Helm and Gray (2009:66) note that a corporate reputation exists "… in the minds of the firm's stakeholders who monitor past performance and develop expectations about future conduct". The critical point to keep in mind here is that corporate reputation is "… strictly a product of co-creation, of communicated and perceived behaviour, of actual and vicarious experience" (Helm & Gray, 2009:66). As stakeholders share and interpret the organisation's actions and intentions, the for-profit organisation's corporate reputation is then subject to the interpersonal influence and subjective views of its stakeholders.

Therefore, based on their total exposure to the organisation, stakeholders will form their own opinion of the organisation and its conduct, resulting in the organisation's reputation (Barnett *et al.*, 2006:36; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29; Swift, 2001:22).

While an organisation can then shape the image and the brand it portrays and projects to its stakeholders, it cannot control how its stakeholders interpret the communication they receive from the organisation and about it from external sources. Furthermore, since it cannot directly 'control' how its employees will behave, it also cannot control how its stakeholders experience the organisation itself (Helm & Gray, 2009:65).

This then highlights the critical importance of creating an ethical, value-based identity and instilling this as a culture throughout the organisation. In this manner, the organisation can deliberately enable its employees to behave in a consistent, ethical and trustworthy manner, and it can ensure that its symbolic presentation of and communication about itself is focused and managed to enable greater consistency in how the organisation presents its identity to its stakeholders (Pirson & Malhotra, 2008:23)

Casson and Della Giusta (2006:352) note that, for an organisation to acquire a reputation, "… it is normally necessary to do more than simply demonstrate a desire to invest in it". Stakeholders will observe and assess the actions of and communication from and about the organisation, and it is held that only when they believe the organisation's moral commitment based on all the signals they have received, will they come to believe that the organisation "… will stick resolutely to the same pattern of behaviour" in future.

Helm and Gray (2009:66) also hold that it is the organisation's corporate reputation, based on its trustworthiness, which makes it possible for stakeholders to anticipate the future behaviour of an organisation. This study supports this view, but expands it to include trust in the equation.

It is therefore to ensure its own economic sustainability that an organisation will want to maintain a good trust relationship with its stakeholders and act in the interest of its stakeholders' expectations. Since there is not necessarily a direct relationship between the organisation and its stakeholders, it becomes even more imperative for the organisation to establish and cultivate a relationship with its stakeholders (albeit indirectly), by introducing and making itself known to its stakeholders, and getting to know them, through its corporate communication and reputation-building activities and its consistently aligned trustworthy behaviour (Ingenhoff & Sommer, 2010:340).

The requirement of establishing a sustainable corporate reputation is then closely interrelated with all the requirements for creating a sustainable and trustworthy for-profit organisation as discussed earlier (Jones, 2007:68). It is posited by this study that a reputation, which can also be called a stakeholder assessment, will only lead to the desired outcome, namely to influence stakeholders' decision to trust and therefore continue to support the organisation, when their perceptions of what the organisation has promised and communicated itself to be is in fact in line with its actual behaviour (adapted from Hatch & Schultz, 2008:67).

- ***The focal point in reputation is trustworthiness; the outcome is trust***

This study contends that a good reputation can be undermined when there is a lack of trust, or distrust, in the organisation (Gillespie & Dietz, 2009:127; Schoorman *et al*., 2007:350). Based on extensive empirical evidence from social dilemma games, Stout and Blair (2001:43) note the effect that the defection of some players have on the rest of the players: "As cooperators learn that other players are defecting, they become increasingly willing to defect themselves."

The relevance of these results for this study is that the distrust of one stakeholder can influence and lower the levels of trust of other stakeholders.

Trust in an organisation is a temporal phenomenon – it is built up over time, based on the experiences and interactions with as well as the perceptions of the organisation, and it forms the basis for future action (Ingenhoff & Sommer, 2010:341). Examples of such future action can include customers who will continue to buy from, investors who will continue to invest in and employees who will continue to work for the organisation.

Trust, which ensures the fulfilment of the present outcome of the relationship and, more importantly, forms the basis for intended future action, then speaks to the ability of the organisation to sustain its business operations into the future. This is because no organisation would be able to remain economically sustainable without the support and commitment of all its internal and external stakeholders (Jones, 2007:32; King, 2009:9).

Essentially, it is then held that trust is the outcome of a good corporate reputation (which allows the stakeholders to become familiar with the organisation), as well as the consistency with which the organisation acts and communicates to showcase its value-based identity (which allows the stakeholders to believe that the organisation is worthy of its trust). These two elements combined (reputation and trustworthiness) then lead to the formation of trust, and therefore to the outcome where stakeholders will feel safe in predicting or anticipating the future behaviour of an organisation, and acting on their decision to trust and support the organisation.

It is therefore posited that an improved corporate reputation, which is based on how the organisation presents its identity to its stakeholders and lives it consistently with integrity (Jones, 2007:67; Pirson & Malhotra, 2008:23), will lead to a reputation for being trustworthy (Helm & Gray, 2009:66), which will therefore lead to increased stakeholder trust in the organisation. It is further held that the increased trust will lead to more supportive stakeholder behaviour (Jones, 2007:68) and that this sustainable systemic behaviour will in turn enable and safeguard the for-profit organisation's long-term economic viability and success in a sustainable manner.

Reputation is seen as a for-profit organisation's most valuable asset, since it can give the organisation credibility, which means it can be trusted (King, 2009:22; Jones, 2007:67), but it is also the organisation's most fragile asset, which means it can easily be lost (Kramer, 2010:05; O'Connor, 2001:53; Rangan, 2011:4).

Warren Buffet, chairman of Berkshire Hathaway, arguably one of the world's richest people and one of the most celebrated investors in the twenty-first century (Goldsmith, 2012), is often quoted on his view regarding the fragility of reputation, which is: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." (Keh & Xie, 2009:732).

This study regards corporate reputation to be the assessment that stakeholders make of the identity and character of the organisation – an assessment that influences their decision to trust the organisation to continue to be what it has set out to be. However, when the for-profit organisation is found to have violated that trust, stakeholders will withdraw their trust.

This explains why, in Buffet's terms, a 'reputation can be ruined in five minutes'. The key elements that contributed to the corporate reputation 'over a period of 20 years' will still, to a large extent, be in place: the people, the performance, the products, the profits, the quality processes, and so forth. What has been lost, and therefore is seen as the loss of the reputation, is the stakeholders' trust in the organisation, because it has been found not to act consistently with the values and identity that it has been presenting to its stakeholders – it has been found to be untrustworthy (Pirson & Malhotra, 2008:10).

This is in line with Hardin's observation that was noted earlier that "… the focal problem is trustworthiness, not trust" (Hardin, 2002:30).

5 CORPORATE IDENTITY AND STAKEHOLDER IDENTIFICATION

5.1 AN ORGANISATION'S SUSTAINABILITY LINKED TO ITS IDENTITY

In the overview of organisational identity theory provided in Chapter 2, the link between an organisation's long-term sustainability and its corporate identity was made.

In brief, the argument is that an organisation's performance and sustainability is dependent on the approval, commitment and support of its stakeholders, since it is the stakeholders who grant the organisation its legitimate right to operate; and that stakeholders' support and commitment in turn is largely dependent on the identity the organisation adopts and presents.

Based on this, it is then posited that by establishing its identity as a trustworthy and ethical organisation, it ensures that its stakeholders will connect emotionally with its core values, thus increasing the opportunity for its stakeholders to positively identify with it and its values, prompting their feelings of support or approval. The need for an organisation's identity to be value-based will be summarised briefly, before the importance and process of stakeholders' identification with an organisation's identity is discussed.

5.1.1 An organisation's identity needs to be value-based

In the view of the organisation as a social actor, organisational identity is regarded "… as an organization's coherent self-definition (roughly: 'who we are as an organization'), invoked as a common frame of reference by 'member-agents' in the course of acting or speaking on behalf of their organization" (King & Whetten, 2008:194).

Identity is then regarded as the fundamental concept used to explain the organisation – its distinguishing features and attributes which reflect the organisation's membership in self-defining social categories or social identities (King & Whetten, 2008:193-194).

Research has shown that corporate reputation can be managed, altered and affected by external and internal factors such as industry forces, culture and corporate behaviour (Balmer & Greyser, 2003b:235). It is held that in order to realise the strategic benefits of a reputation (stakeholders' trust and support), the organisation's reputation should be grounded in an ethical and trustworthy, value-based identity (Einwiller & Will, 2001:4; Mazzola *et al*., 2006:385).

Gagliardi (in Gioia *et al*., 2000a:64) argues that the main strategy of an organisation is usually geared to maintaining its identity, particularly under threatening conditions of change. Moss Kanter (2011:69) agrees, and notes that by providing the organisation with a coherent value-based identity, its leadership is effectively creating a buffer against uncertainty and change.

Even though this institutional grounding involves efforts to cultivate and reinforce the organisational culture, and may not immediately lead to business results, it is a proactive investment in activities and relationships that emulate the values the organisation stands for and will help it to endure. As such, Moss Kanter (2011:70) maintains that it is institutional grounding that "… can separate the survivors from those subsumed by global change". This is because, she observes, a sense of purpose "… infuses meaning into an organisation, 'institutionalising' the company as a fixture in society and providing continuity between the past and the future. The name can change, but the identity and purpose will live on."

5.1.2 Stakeholders' identification with an organisation's identity

More than 60 years ago, Selznick (1948:29) already emphasised the need for a for-profit organisation to appreciate that it exists as a whole in relation to social forces in its environment if it wants to maintain itself as a system and ensure its survival. Based on the earlier discussion of the increasing power and capability of stakeholders to act against organisations, this need is even more pronounced today. This is why King lll states that the inclusivity of stakeholders is essential to achieving sustainability and that the legitimate interests and expectations of stakeholders therefore need to be taken into account in a for-profit organisation's decision-making processes and strategy (King, 2009:100).

Contrary to the earlier theoretical view that uncertainty can be reduced when the organisation makes itself less dependent on the personal knowledge and skills of individuals involved in the organisation (Selznick, 1948:25), this researcher holds that the reduction of organisational uncertainty (Oliver, 1991:147) relies on the for-profit organisation's acknowledgement and acceptance of its *complete* dependency on its employees and key stakeholders.

Enabling the creation of a sustainable and trustworthy for-profit organisation is then related to the need for the leadership to ensure that the organisation, as a strategic imperative, acknowledge the role and impact of its internal and external stakeholders on the sustainability of the organisation (King, 2009:21). This in turn implies that the organisation should endeavour to communicate effectively (Murphy, 2005:187-188) and establish an authentic relationship with all its stakeholders in order to earn their trust and support, which is regarded as vital for its operations and success (King, 2009:21).

Authentic communication will allow for stakeholders to identify with the organisation. Identification in the context of trust relates particularly to value congruence, and the importance of shared goals, values, norms and beliefs. Corporate trust and organisational effectiveness are held to prosper in those instances where stakeholders can identify with an organisation based on value congruence (Pirson, 2009:8-9).

Effective communication and an authentic relationship with stakeholders are of particular importance to a for-profit organisation when the empirical results of the meta-analytic review of 39 studies to determine when trust increases over time by Vanneste *et al*. (2011:23) are taken into account. In their analysis, the authors found that there was only a weak positive bivariate correlation between relationship duration and trust. However, they also found evidence for the existence of important unobserved moderators of this relationship, and in particular that two of these mechanisms, namely identification between trustor and trustee, and trust-based selection "… lead to an unambiguous prediction that trust increases with relationship duration".

The important role of effective communication and stakeholder-relationship management is also supported by empirical evidence from social dilemma games, where it has been found that a variety of purely social factors such as personal contact, perceptions of another's dependence and of own contribution to the group's welfare as well as group identity appeared highly influential in determining the degree of cooperation observed between participants in the games (Stout & Blair, 2001:45).

Effective and authentic communication to internal and external stakeholders, however, is not sufficient. The for-profit organisation should also cultivate and maintain an authentic relationship with its stakeholders, and this involves more than just inviting key stakeholders to social events or sending them newsletters. Bandsuch *et al*. (2008:111) note that "… business is primarily a function of relationships with key stakeholders". This study, however, contends that a for-profit organisation needs to focus on managing its own character in order to be able to deliver on its accountability to all its stakeholders, which suggests that it needs to focus on building a single, authentic relationship with all its stakeholders, instead of trying to manage multiple stakeholder relationships.

- ***Stakeholder-identification translates into stakeholder commitment and support***

In keeping with a key tenet of social identity theory – that individuals seek to increase or sustain their positive self-esteem by identifying themselves with an identifiable group whose members have the same definition of who they are and share similar attributes, and by positively differentiating their ingroup from a comparison outgroup on some valued dimension (Cooren *et al*., 2011:1159; Hogg & Terry, 2000b:151) – it is held that both internal and external stakeholders can then identify with an organisation, based on its core identity and values.

Identification is conceptualised here as the familiarity of the organisation's identity that develops over time, as a stakeholder and a for-profit organisation interact with each other. In particular, stakeholders' identification with the values of an organisation leads to attraction and evokes positive attitudes (Pirson, 2009:9; Vanneste *et al*., 2011:23).

Through effective corporate communication (provided it is authentic and symmetrical), the stakeholders begin to identify with the organisation, which in turn leads to the internalisation of the organisation's values and preferences – to the two parties becoming more similar. The effect on the stakeholders is that over time and with repeated communication and interactions their trust in the organisation will increase. Essentially, it is then also suggested that the stronger the identification, the stronger stakeholders' commitment and support for the organisation would be (Hogg & Terry, 2000a:126).

Conventional research on organisational identification does not distinguish identification from internalisation or cognition from behaviour and affect. Ashforth and Mael (1989:23) cite Hall *et al*., who defines organisational identification as "*… the process by which the goals of the organization and those of the individual become increasingly integrated and congruent",* as well as Patchen who defines identification as *shared characteristics, loyalty and solidarity*.

While there are some scholars who do not regard identification and commitment as being equal, the view that is supported in this study is more in line with the conventional view, which equates identification with commitment – where organisational commitment is defined as *the relative strength of an individual's identification with and involvement in a particular organisation* (Ashforth & Mael, 1989:23). Commitment is then characterised by an individual's belief in and acceptance of the organisation's goals and values, his willingness to exert effort on behalf of the organisation and his desire to maintain membership. Internalisation, behavioural intentions and affect are therefore included in this formulation of identification (Ashforth & Mael, 1989:23).

Based on the social identity literature, identity fosters trust, and according to Lewicki and Bunker (1996:123), trust also helps to strengthen identity, particularly when it develops into the final stage of trust, called identification-based trust (Friedman & Miles, 2006:71; Lewicki & Bunker, 1996:124; McEvily *et al*., 2008:564; Möllering, 2006:367). When an organisation and its stakeholders reach this stage of trust, it indicates that the two parties have come to know each other so well that they can begin to identify strongly with the other party's values and needs.

The important point here is that the for-profit organisation also needs to identify with its stakeholders – it needs to cultivate and strengthen its relationship with them by also listening and incorporating their values and preferences. Vanneste *et al*. (2011:23) found that the faster a trustee (the for-profit organisation) identifies with its trustors (the stakeholders of the organisation) and the trustors recognise this, the faster trust in the trustee (i.e. the organisation) will increase over time. As a consequence, the effect of identification for the organisation as trustee is that over time and through repeated relationship interactions it becomes more trustworthy, and its benevolence may increase. Higher trustworthiness should lead to higher perceived trustworthiness by the stakeholders.

This links to the second mechanism that Vanneste *et al*. (2011:24) identified as leading to an increase in trust within the relationship duration, namely trust-based selection, which basically means that a trustor (stakeholder) will primarily choose to have and stay in a relationship with a trustee (organisation) that he regards as being trustworthy. In other words, the long-lived relationships of stakeholders as trustors will be primarily with trustworthy for-profit organisations as partners, because over time stakeholders will discover the untrustworthy partners and will terminate their relationship with those partners. As a result, trust will be high in long-lived relationships. “With the possibility of exiting a relationship, a trustor will continue relationships only with partners who are trusted.” (Vanneste *et al*., 2011:24).

The key point here for an organisation is that at the stage where stakeholder identification increases and a shared identity with the organisation is developed, the strength of stakeholders’ commitment towards the organisation also expands (Lewicki & Bunker, 1996:123; McEvily *et al*., 2008:564). Furthermore, a shared identity also amplifies the perception of interdependence and a common goal, which are key elements of commitment and cooperation. When stakeholders share a commitment to an organisation, they tend to be more loyal to the organisation and more willing to invest their time, effort and attention on behalf of the organisation (Lewicki & Bunker, 1996:122).

Nooteboom (2006:256) observes that identification-based trust affects the tolerance of behaviour that deviates from expectations: “One can more easily forgive someone’s breach of trust or reliance when one can sympathize or identify with the lack of competence or the motive that caused it.” He also notes that while empathy and identification are both forms of affect-based trust, affect is the strongest in the latter.

A for-profit organisation that wants to realise the benefits related to stakeholder-identification needs to start its reputation-management process by revisiting and refining its corporate identity, to ground its reputation in an ethical and trustworthy identity

(Einwiller & Will, 2001:4; Mazzola *et al*., 2006:385), and then ensure that it consistently communicates that identity in everything that it does and says, in order to familiarise its stakeholders with who the organisation is and what it stands for. Most importantly, it needs to ensure that it consistently acts in line with its stated identity and character, since it cannot control all the ways in which its stakeholders get to know about the organisation.

- ***Stakeholders' perceptions also informed by sources outside the organisation***

Contrary to the more traditional cognitive and social psychological contributions to organisation studies, which tend to offer accounts of organisational identity as packaged outputs reflecting relatively stable and predictable meaning systems and categorisations, contemporary communication and organisational identity research, particularly from a discourse perspective, emphasise the fundamentally dynamic and socially situated signification processes around identity and identification.

As such, organisations are regarded as "… socially constructed from networks of conversations or dialogues, the inter-textuality, continuities and consistencies of which serve to maintain and objectify reality for participant" (Cooren *et al*., 2011:1159).

A corporate reputation develops mainly from stakeholders' experience with and information about an organisation and its reputation-building activities (Einwiller & Will, 2001:8). The critical point to keep in mind with regard to the development of corporate reputation is that an organisation cannot control how its stakeholders perceive it, since it cannot control all the ways in which stakeholders experience or get to know about it.

This becomes particularly clear when the following is considered: while personal experience is the most powerful source for the formation of impressions, stakeholders often do not have the opportunity to personally interact with the for-profit organisation, yet they still develop impressions and make evaluations about the organisation without ever having experienced direct personal contact with it, its products, services or representatives (Casson & Della Giusta, 2006:352; Einwiller & Will, 2002:8).

As such, information from other sources than direct experience forms an important part in the development of corporate reputation. This highlights the importance of corporate communication and reputation-building activities in order to familiarise stakeholders with the organisation, particularly with the values that the organisation stands for – its identity. Trust is held to be most effective when beliefs are shared (Casson & Della Giusta, 2006:352). It is then possible for stakeholders to trust an organisation even if they do not personally know it, because they can form their opinions about the organisation based on its corporate reputation, or to be more accurate, on its stated reputation promise.

However, it is critical for an organisation to keep in mind that stakeholders do not form their opinions about the organisation based just on what the organisation communicates and presents about itself. A corporate reputation is also influenced and formed by signals that stakeholders receive from sources other than the organisation, which once again emphasises the need for alignment between the organisation's words and behaviour.

Signals that are particularly influential are those that come from sources that are not controlled by the organisation, such as the media or specialised groups like government agencies, financial-rating agencies, corporate-conscience agencies and consumer agencies. Messages from these sources are regarded to be more credible than official corporate communication messages, because the sources of these messages do not have a direct stake in the organisation's reputation (Einwiller & Will, 2001:8).

Furthermore, informal sources like peers, friends, family members, colleagues and employees of an organisation in an informal situation are particularly persuasive (Einwiller & Will, 2001:8). As put forth in sociology and social psychology, most behaviour, including economic activity, is closely embedded in networks of interpersonal relations. Granovetter (in Einwiller & Will, 2001:8) strongly emphasises the influence of networks of social relations on economic transactions and sees them as being 'mainly responsible' for the production of trust in economic life. Casson and Della Giusta (2006:348) agree, and note that networks play an important role in promoting trust in the organisation, in that they support the spreading of its external reputation.

An important aspect of reputation-building therefore lies in the role of social networks, which refers to the emergence of a reputation as a result of such network effects, when information about an organisation's behaviour in one relationship spreads to others via an information network. It is then considered that corporate reputation is partly a result of a social interaction process where stakeholders exchange their individual beliefs about an organisation within their social network, which in turn influences a potential trustor's trusting beliefs and eventually his trusting intention. As such, Casson and Della Giusta (2006:352) note: "Reputation therefore helps to spread trust."

Einwiller and Will (2001:9) hold that terms such as 'wide recognition for one's deeds', 'high standing among others' and 'public estimation' imply that "… not only one individual, the one planning a transaction, knows of the market partner's reputation. It implies that the social network knows of the reputation and greatly shares and exchanges the attitude towards the respective person or organization." As such, corporate reputation can then also be considered to be a product of social relationships and the embeddedness of its actions. This accentuates the critical need for alignment between what an organisation promises, what it does and what it says.

It is then posited by this researcher that a for-profit organisation whose leaders establish a corporate identity as a trustworthy and ethical responsible corporate citizen will enable identification with the organisation and is able to guide the behaviour of its employees, and indirectly the behaviour of its stakeholders, accordingly.

6 KEY DIMENSIONS OF CORPORATE REPUTATION

6.1 VARIOUS MODELS WITH DIFFERENT DRIVERS AND VIEWS ON TRUST

There are numerous models and descriptions of the key dimensions or drivers that influence corporate reputation, such as the *CORPerceptions* reputation model developed by Opinion Research Corporation International (ORC), which identifies the key drivers as competitive effectiveness, market leadership, customer focus, familiarity/favourability, corporate culture and communication (Greyser, 2003:236) and the *Reputation Quotient*^{SM} (RQ) model, developed by Charles Fombrun and Harris

Interactive in 1999 (Fombrun & Van Riel, 2004:52; Lloyd, 2007:54; Walsh & Wiedmann, 2004:305).

The underlying assumption of the multi-dimensional RQ measurement tool is that corporate reputation has a range of reputation dimensions on which individuals base their judgements of an organisation, as expressed by six key dimensions. In the original RQ model, developed in 1999, the six key dimensions were: corporate appeal, products and services, financial performance, vision and leadership, workplace environment, and social responsibility (Fombrun & Gardberg, 2000:13).

In describing these dimensions, the authors make no reference to trust or trustworthiness as a key characteristic of the organisation's identity that influences its corporate reputation. The corporate appeal dimension, which was later changed to 'emotional appeal' (Fombrun & Van Riel, 2004:52), was originally defined as "How much the company is liked, admired and respected". 'Trust' as an attribute was only added when the dimension was changed to emotional appeal.

Another model, which is more recent, is the *Global RepTrak™ Pulse* model, developed by the Reputation Institute in 2006. According to this model, the key dimensions or drivers of corporate reputation include products and services, performance, leadership, citizenship, governance, workplace and innovation, as well as emotional appeal – defined as the degree of trust, admiration, good feeling and overall esteem that stakeholders have in and for an organisation. This model positions emotional appeal at the centre of the model to indicate its influence on all the other dimensions (Hatch & Schultz, 2008:37; Reputation Institute, 2012).

6.2 REPUTATION DRIVERS AND THE ISSUE OF TRUSTWORTHINESS/TRUST

Despite the consensus about the importance and positive effects of a favourable reputation, as well as the expanding interest and focus by researchers and practitioners on corporate reputation, disparate knowledge remains about how reputation should be defined, what its key dimensions or drivers are, what the relationships between those are and how it should be measured (Helm, 2007:238; Lloyd, 2007:x).

Essentially, this study contends that it is a possible lack of understanding of the relationship between corporate reputation and trust that contributes notably to the fact that consensus concerning the core meaning and the building-blocks of corporate reputation still eludes academics and leaders alike.

Furthermore, it would appear that in much of the existent literature a corporate reputation seems to be generally regarded as an end in itself. This study, however, regards reputation to be only a means to an end – to earn the trust, and therefore the commitment and support, of its stakeholders, by 'familiarising' stakeholders with who the organisation is, what it stands for and can be held accountable for (Balmer & Gray, 2001:979; Barnett *et al*., 2006:28,33; King & Whetten, 2008:195).

6.2.1 Trustworthiness as a key antecedent of reputation underestimated

In many of the existing reputation models the concepts of trustworthiness and trust are either not linked to the key dimensions of reputation, or trust (not trustworthiness) is merely indicated as an attribute of one of the key dimensions of reputation. For example, in both the *Reputation Quotient*^{SM} (RQ) model (as described in 2004) and the *Global RepTrak™ Pulse* model, trust is indicated as an attribute of emotional appeal (Fombrun & Van Riel, 2004:52; Lloyd, 2007:65; Walsh & Wiedmann, 2004:305), suggesting that trust contributes to building an organisation's reputation.

Furthermore, neither of these models identifies the critical role of an ethical, value-based identity with regard to both reputation and trust, nor do they purposefully emphasise the need for strategic alignment with the organisation's inherent identity. However, in the *CORPerceptions* model, ethical standards are identified as important, but then only regarded as an attribute of corporate culture as a key dimension (Greyser, 2003:236,239).

Since corporate reputation is defined in this study as *the collective assessment that all relevant internal and external stakeholders make of the trustworthiness of an organisation; of its character, which influences their decision to trust and their actions to support the organisation* (Chun, 2005:105; Fombrun & Van Riel, 2003:230), identity is regarded as the 'backbone of reputation' (Walsh *et al*., 2009:188). As such, it is then held that corporate reputation is dependent on how well its stakeholders know who it is, and how strongly they can identify with it.

This concept is suggested in the *Global RepTrak™ Pulse* model. A key differentiating factor between this model and the other reputation models discussed earlier is the emphasis that the *Global RepTrak™ Pulse* places on emotional appeal as a dimension, which includes the degree of trust that stakeholders have in an organisation. In the *Global RepTrak™ Pulse* model, corporate reputation is regarded as developing on the basis of the emotional bond that stakeholders feel for an organisation. According to this model, the degree to which a particular dimension affects the emotional bond between a stakeholder group and an organisation determines in turn which dimensions have the highest impact on stakeholders' support and recommendations (Reputation Institute, 2012).

The appeal of this model for this study lies in the emphasis that it places on the emotional bond between an organisation and its stakeholders and on trust in particular, as well as its underlying rationale that business success depends on support from stakeholders; that support depends on trust; and that trust is therefore at the heart of a strong reputation.

However, in contrast to the *Global RepTrak™ Pulse* and the other models discussed earlier, this study contends that it is trustworthiness, rather than trust, that lies 'at the heart of a strong reputation'; that helps to build a strong corporate reputation. Trustworthiness, regarded by this study as an objective characteristic of an organisation; as an integral part of its identity which makes it worthy of having its stakeholders' trust placed in it, is then believed to be an antecedent of reputation (Casson & Della Giusta, 2006:346; Li & Betts, 2004:7; McEvily *et al*., 2008:559).

Trust, regarded as the subjective attitude, expectation and belief of stakeholders that they can rely on the statements, promises, as well as the moral character of the organisation to act in a manner that will also protect their own rights and interests, is then regarded as the ultimate *outcome* of an organisation's efforts to build a strong corporate reputation, provided its reputation-building efforts are also strategically aligned with its behaviour and self-presentation – with its inherent ethical, value-based identity (Dietz & Den Hartog, 2006:559-560; Ingenhoff & Sommer, 2010:340; Lewis & Weigert, 2008:157; Linthicum *et al*., 2010:161; McEvily *et al.*, 2008:559; Mouzas *et al*., 2007:1021; Swift, 2001:19).

Trustworthiness is then regarded as a key driver that influences both reputation and trust, which means that neither reputation nor trust is sustainable without trustworthiness (Li & Betts, 2004:7; McEvily *et al*., 2008:559).

6.2.2 Traditional reputation drivers becoming blurred, fusing with trust drivers

The argument of the perceived disparity in much of the existent literature of the exact nature and relationship between reputation and trust is then also extended to reason that this disparity will similarly be evident in the key dimensions or drivers that are put forth as guidelines for leaders to build a strong reputation.

It is interesting to note in more recent reputation literature that the focus and emphasis with regard to the traditional key dimensions of reputation are changing, and increasingly many of the antecedents that are presented as the foundations of corporate reputation can be argued to be more closely and more accurately related to the construct of trust.

A possible explanation for this perceived misclassification can be related to the existing leading view that it is corporate reputation per se that is important. Instead, it is held that reputation should be recognised as a means to an end, which is to earn stakeholders' trust and support. As such, it is posited that the importance of corporate trust, as the outcome of a strong corporate reputation, needs to be acknowledged, based on the view that it is stakeholders' trust, rather than a corporate reputation, that will enable an organisation to ensure its own long-term corporate and economic sustainability.

The five-star model presented by Fombrun and Van Riel (2004:86), representing the key ingredients for building strong corporate reputations, serves as an example to substantiate the point that dimensions or drivers that are being presented as reputation drivers can more accurately be regarded as being related to corporate trustworthiness and trust.

Fombrun and Van Riel (2004:xxi-xxiv) start the introduction of their book, *Fame and Fortune: How winning companies build winning reputations,* by listing a number of organisations that have been in the news since 2003 due to scandals, fraud and other irregularities, which severely damaged these organisations' reputations. While these authors note that the scandals produced "… a serious crisis of confidence" in the corporate sector, they do not refer specifically to the loss of stakeholders' trust, nor do they link the loss of trust directly to the impact of these scandals, which "… led to the demise of major corporate names such as Enron, Andersen, and Adelphia, [and which] jeopardized the continued existence of others such as WorldCom and Martha Stewart's Omnimedia" (Fombrun & Van Riel, 2004:xxiv).

Fombrun and Van Riel then note (2004:xxv) that some organisations, "… who know the value of their reputations and manage them accordingly", have been able to maintain their strong reputations and they link this to the key tenet of their book: "That reputations reflect how companies are perceived across a broad spectrum of stakeholders, and that's a function of how companies communicate both with the media and with the public." (Fombrun & Van Riel, 2004:xxvii). While this study also regards communication as undoubtedly critical, it does so within the framework of consistently communicating and presenting an organisation's identity, particularly since stakeholders get to know about the organisation from many sources that are beyond its control.

While Fombrun and Van Riel do not refer directly to the critical role of identity and trustworthiness in building a reputation in their model, the drivers of the model they present can be interpreted to hint at this. In addition, based on their more detailed descriptions of each of these drivers, it would seem that there is a much greater alignment between the views expressed by these authors and the key tenets of this study, except for the fact that Fombrun and Van Riel focus on corporate reputation per se as contributing to and ensuring the long-term economic sustainability of a for-profit organisation.

In contrast, this study conceptualises corporate trust, as an outcome of a strong corporate reputation, as the essential prerequisite for any organisation that wants to sustainably enable and safeguard its long-term economic and organisational performance in a competitive environment (Ingenhoff & Sommer, 2010:339).

Based on their analysis of the 2001 RQ data, Fombrun and Van Riel (2004:86) observe that organisations with high RQ scores "… appear to be substantially different from lesser rivals on five dimensions". These authors identify five key principles or characteristics as "… key ingredients for building star-quality reputations", which include corporate visibility, transparency, distinctiveness, consistency and authenticity. In contrast to the original key dimensions of reputation in the RQ, these new dimensions can be argued to be more closely related to the antecedents of trust; or to be the characteristics of trustworthiness. A comparison, outlined in Table 2, is offered by way of explanation.

Table 2: Antecedents of reputation becoming blurred, merging with trust drivers

Antecedents of reputation **Fombrun and Van Riel (2004:86)**	**Antecedents of trust** **as posited by this study**
Visibility RQ analyses confirm that stakeholders' familiarity with an organisation positively influences reputation (Fombrun & Van Riel, 2004:87).	**Identification** Identification includes, but is greater than, the concept of general familiarity and visibility. Stakeholders' identification with an organisation is dependent on their familiarity with *who* the organisation is and what it stands for (its identity) – the reputation that it wants to be known for (Lewis & Weigert, 2008:161; Möllering, 2006:367; Pirson & Malhotra, 2008:10), and their identification with the organisation's values/ character.
Distinctiveness A corporate reputation is built when an organisation comes to occupy a distinctive position in the minds of stakeholders; when it focuses its actions and communications around a core theme, i.e. Johnson & Johnson, who makes trustworthiness the focal point of all its communications and who invariably scores high in rankings of trust (Fombrun & Van Riel, 2004:89,90).	**Ethical behaviour** Ethical behaviour is the set of moral principles or values of an organisation, which lie at the core of its goals, decision-making and behaviour. The organisation uses its ethical framework as its governing ethos – as its core theme – to direct its decision-making, actions, business operations and commercial activity to ensure that it acts fairly, honestly and responsibly towards all its stakeholders (Cacioppe *et al.*, 2008:682; Cartwright & Craig, 2006:743; Jones, 2007: 43,188; Kapstein, 2001:117; Murphy, 2005:183; Wood, 2002:63). It also uses ethics as its core theme that underlies

	all its corporate communication messages and reputation-building activities.
Authenticity "The public appreciates authenticity, and to be well regarded, you can't fake it for long – you've got to be real. Authenticity creates emotional appeal, and there's no reputation building without emotional appeal." (Fombrun & Van Riel, 2004:91). "In the long run, efforts to manipulate external images by relying purely on advertising and public relations fail if they are disconnected from the company's identity. A strong reputation is built from *authentic* representations by the company to its stakeholders." (Fombrun & Van Riel, 2004:92).	**Emotional attraction** Affective states such as liking or admiration are particularly likely to increase people's motivation to trust because they motivate behaviours to approach, connect, interact, enter into and maintain relationships with an organisation (Williams, 2001:387). Trust occurs because an emotional bond is created between an organisation and its stakeholders, enabling them to move beyond the expectations that reason, knowledge and experience warrant and to take a 'leap of faith' that their trust will be honoured by the organisation (Bachmann, 2006:395; Mishra, 1996:265; Möllering, 2006:370-371; Wicks *et al*., 1999:100). This is dependent on the organisation's ability to develop and maintain an authentic relationship with its stakeholders, and align and use its corporate communication and reputation-building activities to authentically express itself so that its stakeholders are able to get to know and identify with the organisation and what its stands for.
Transparency A strong reputation develops when an organisation is transparent in the conduct of its affairs, and when it communicates widely about itself. Transparency helps build, maintain and defend reputation (Fombrun & Van Riel, 2004:93,94).	**Transparency** Transparency, governance and accountability together are powerful disincentives to exploitation, provided they are entrenched in the culture of the organisation (Turnbull, 2002:34). Transparency engenders trust, when an organisation is actively transparent, in order to avoid being, and being seen as, an opaque organisation, which reinforces the ethical governance of the organisation (Bandsuch *et al*., 2008:113).
Consistency "Top-rated companies are also consistent in their actions and communications to everyone, [and are] more likely to orchestrate and integrate their initiatives cross-functionally." (Fombrun & Van Riel, 2004:94).	**Integrity** An organisation acts with integrity when it consistently honours its word, which consists of what is said among the people in the organisation and what is said by or on behalf of the organisation. Integrity then relates to the extent in which the organisation's actions are congruent with its own words and corporate communication (Erhard *et al*., 2009:2; Ingenhoff & Sommer, 2010:343; Mayer *et al*., 1995:719). The route to create trust lies in an organisation's ability to consistently act with integrity. "Consistency and congruency between words and actions build trust across stakeholder groups." (Pirson, 2009:7).

Ability and benevolence are also two trust antecedents identified by this study (see Chapter 4), but these are not discussed here since there is no direct correlation in Fombrun and Van Riel's five-star reputation model.

As indicated in the overview in Table 2, the five reputation drivers presented in Fombrun and Van Riel's model (2004:86) are comparable with the drivers of trust, as presented by this study. Although labelled differently, the underlying message of what an organisation needs to do to build a 'star-quality' reputation (as held by Fombrun and Van Riel) *in order to* earn stakeholders' trust and support (as held by this study) is similar, except for the fact that Fombrun and Van Riel focus on corporate reputation per se as contributing to and ensuring the sustainability of an organisation, while a reputation is regarded by this researcher as a means to an end, which is to earn stakeholders' trust and support, and so enable a for-profit organisation to safeguard its own corporate sustainability in the long-term (Ingenhoff & Sommer, 2010:339).

A few excerpts from Fombrun and Van Riel's book serve to show that their underlying message is similar to this view, although they do not directly label it as such:

- "A good reputation improves a company's credibility [trust]..." (Fombrun & Van Riel, 2004:9).
- "If stakeholders like what they hear and see, they support [i.e. trust] the company – and an upward spiral results that attracts more resources to the company. If stakeholders withdraw their support, a downward spiral results that can lead to bankruptcy, as demonstrated by the speedy demise of the giant auditor Arthur Andersen following its reputation-damaging criminal indictment in the United States in 2001." (Fombrun & Van Riel, 2004:20).
- "Comparable market losses occur, however, even when no physical assets are actually lost and the crisis can be attributed solely to changed perceptions [i.e. loss of trust] of the company by key resource-holders." (Fombrun & Van Riel, 2004:34).
- "Knowingly or not, consumers psychologically support companies that they perceive as behaving fairly and responsibly towards employees and communities [i.e. those that they trust]." (Fombrun & Van Riel, 2004:59).
- "Communications increase the probability that a company will be perceived as genuine and credible [i.e. trustworthy] – and so attract support and advocacy from stakeholders." (Fombrun & Van Riel, 2004:87).
- "The RQ Project shows that strong reputations arise when companies focus their actions and communications around a core theme. Consider again the U.S. medical products group Johnson & Johnson. The company invariably scores high in consumer rankings of trust. This is no accident: *Trustworthiness* [own emphasis] is a focal point of all its communications." (Fombrun & Van Riel, 2004:90).
- "Perceptions of a company's authenticity have much to do with reputation management. To earn the benefit of the doubt [i.e. be trusted], companies have to convey absolute honesty in

all of their interactions with stakeholders – otherwise, any discredit by one stakeholder [i.e. loss of trust] will instantly be communicated to all of them, reducing the degree of support they feel for the company." (Fombrun & Van Riel, 2004:163).

- "In order to influence how a company wants to be perceived, the company must change who it believes itself to be [i.e. identity]. In doing so, it shifts from impression management to expressive communication, which stakeholders are likely to reward with deeper trust and commitment. Thus, the sustainability of a company's reputation as an asset is also better ensured." (Fombrun & Van Riel, 2004:178).
- "Authenticity builds reputation. At heart it comes from consistently doing the right thing over a long period of time [i.e. to be ethical and trustworthy]." (Fombrun & Van Riel, 2004:181).
- "Remain true to yourself! Don't compromise your core purpose and core values in order to more quickly respond to pressures put on the company by short-sighted groups of investors, activists, or consumers [i.e. trustworthy identity]." (Fombrun & Van Riel, 2004:181).

Another example that indicates that trust, in relation to corporate reputation, is increasingly coming to the fore can be found in a review of the US-based *Edelman Trust Barometer*, which was developed in 2000 by the research firm StrategyOne, a subsidiary of the Edelman Public Relations firm. As noted in Chapter 1, although this measurement is called a trust barometer, it sets out to measure corporate reputation, where trust is merely regarded as one of the factors that influence corporate reputation. Furthermore, it uses dimensions that are related to those used in the RQ.

It is interesting to note though that in the 2010 survey the question related to trust was changed quite substantially (Edelman, 2010a). In the 2006 survey, respondents were asked to indicate how much each of the factors given contributed to trust. In the 2010 survey, respondents were asked how important they regarded the factors given to overall reputation. In this instance, trust and transparency were added as factors to be rated, in relation to its importance to reputation. It is notable that the 2010 results indicated some points that are significantly relevant to this study. The following extracts (Edelman, 2010b) from the results of the 2010 *Edelman Trust Barometer* – as a reputation measure – highlight the growing importance and impact of trust in relation to corporate reputation:

- "A vastly different set of factors, led by trust (sic) and transparency, now influence reputation." [Trust, not trustworthiness, is viewed as an antecedent].

- “Trust has emerged as the new line of business, one to be developed and delivered.” [Trust, not trustworthiness, is viewed as an antecedent].
- “It is now a stakeholder world, no longer a shareholder world.” [52% of respondents indicated that interests of all stakeholders should be considered in CEO’s decisions].
- “The new reality, where the interests of all stakeholders need to be considered equally, will result in a rise of trust and credibility.” [Trust is viewed as an outcome].

These extracts again underline the premise of this study, namely that the nature of the conceptual relationship between corporate reputation and trust is not clear. In the illustrative extracts used above, trust is presented as both antecedent and outcome, with no reference to the concept of trustworthiness.

A statement from Fombrun and Van Riel is borrowed and slightly adapted [in brackets] to conclude the view of the role of corporate reputation by this study: “… transparency [*reputation]* is not a goal in itself, but a means to an end – the need to increase trust and reduce stakeholder uncertainty about the company” (Fombrun & Van Riel, 2004:188).

6.2.3 New antecedents/drivers for reputation proposed

Based on the discussion above, where the argument was made that the role of trustworthiness as a key antecedent of corporate reputation is underestimated and that the traditional reputational drivers are increasingly becoming blurred with trust drivers, as well as the argument that an organisation should focus on building a single identity and reputation (to be discussed in detail later in this chapter), it is proposed that the seven key drivers or antecedents for trust, as discussed in Chapter 4, should also be regarded as the key antecedents or building blocks for corporate reputation.

As such, it is held that when an organisation focuses on building its reputation using the same antecedents with which it can display its trustworthiness, it will be able to build a strong, enduring reputation that will result in earning stakeholders’ trust and continued support. These antecedents include ability, benevolence, integrity, ethical behaviour, identification, transparency and emotional attraction. These drivers will not be discussed in detail again, as they were defined and explained in Chapter 4.

However, it bears to be re-emphasised that stakeholders' perceptions and assessment of the trustworthiness of an organisation would be based on how they evaluate and perceive the organisation in terms of each of the seven key drivers with which the organisation can display its trustworthiness. While each of the antecedents is important, it is even more crucial to appreciate their interrelationship, since each driver's perceived presence and the level at which stakeholders judge the organisation to perform in this regard has an impact on the level of perceived trustworthiness of the organisation.

Stakeholders' assessment of the level of trustworthiness should be thought of as being on a continuum, which ranges from perceiving and assessing the organisation as not trustworthy at all to it being perceived and assessed as very trustworthy, based on the presence and level of the seven key antecedents. To be assessed as being very or even somewhat trustworthy, *all* seven antecedents need to be perceived to be present in the organisation's character and actions.

The difference between being perceived as very or only somewhat trustworthy will lie in whether stakeholders perceive and judge the organisation's performance to be high in all or only some of the seven antecedents. When not one or very few of the antecedents are perceived to be present and none is perceived as being high in performance, stakeholders will perceive and assess the organisation not to be trustworthy at all (Greenwood & Van Buren lll, 2010:429; Mayer *et al*., 1995:721; Mishra, 1996:269).

Since trust is multi-dimensional, complex and difficult to manage, this is an important guideline for an organisation's leadership in order to fully realise the value being invested in trust-building initiatives, or not to inadvertently destroy trust with an ill-advised initiative. In Chapter 4 the following questions were posed: "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?" (Pirson & Malhotra, 2008:3-4). This discussion of the interrelationship between the seven antecedents provides an answer to the question as to which dimension the leadership of a for-profit organisation needs to focus on: all the antecedents are important, since all of them need to be perceived to be present and all of them need to be judged as high in performance by the organisation's stakeholders.

However, it is also argued that a for-profit organisation that wants to increase the likelihood of being perceived as trustworthy needs to pay particular attention to ethical behaviour and integrity, contextualised within a value-based identity framework, as the two most critical antecedents of them all (Greenwood & Van Buren lll, 2010:429).

Ethical behaviour is defined as *the set of moral principles or values, the guiding philosophy and standards that a for-profit organisation has and uses to direct its commercial activity, decision-making, actions and business operations, to ensure that it acts fairly, honestly and responsibly towards all its stakeholders in everything it doe*s (Cacioppe *et al*., 2008:682; Cartwright & Craig, 2006:743; Jones, 2007:43,188; Kapstein, 2001:117; Murphy, 2005:183; Wood, 2002:63). Integrity is defined as *the level of congruence between the organisation's words and actions; its ability to consistently honour its word*.

While both of these antecedents are important for building trust in any situation, they become the most important and significant factors in the perceived trustworthiness of a for-profit organisation where the stakeholders do not personally know or have an existing relationship with the organisation (Greenwood & Van Buren lll, 2010:429; Pirson & Malhotra, 2008:11).

It is then argued that an organisation should focus on all seven of these drivers, paying particular attention to the importance of ethical behaviour and integrity, when it develops its corporate vision, mission, strategic objectives as well as its reputation and communication management strategies. By taking each driver, and its different attributes, into account when developing its various strategies, an organisation can ensure that it will consistently focus on creating a single corporate identity and reputation as a trustworthy, ethical organisation; and on managing and communicating its performance in each of these key drivers so that its stakeholders can get to know it and what its stands for. By effectively managing these drivers, which are within the organisation's locus of control, it can ensure that how it is experienced and perceived will lead to its stakeholders' identification, commitment and support; to stakeholders' trust.

In order to determine how well it is managing its corporate reputation, an organisation will then need to measure its performance in this regard. Although the development of a measurement tool lies outside the scope of this study, one of the research objectives is to identify the dimensions and variables of measuring corporate trust, in relation to reputation, which can be used as a guide to develop a valid trust and reputation measurement instrument, subsequent to this study.

Based on the proposal of establishing a single ethical, value-based corporate identity and reputation, and the proposal to regard the antecedents for trust as antecedents for reputation, it is then posited that an organisation will only need one measure – a Corporate Trust Index (CTI). It is envisaged that the CTI will measure the organisation's perceived performance in each of these seven antecedents; which will provide the leadership with feedback on how well it is managing its corporate identity, by determining how trustworthy it is perceived and assessed to be. In this regard, its reputation is regarded as the external reflection of an organisation's internal identity (Fombrun & Van Riel, 2003:230).

It is then within this context that the Corporate Trust Index is proposed as the one outcome measure a for-profit organisation will need when it wants to determine the level of trust of its stakeholders; which will be an indication of the likelihood of their commitment and supportive behaviour, and therefore of the impact on the organisation's long-term economic sustainability.

Next, the question of multiple reputations versus a single corporate reputation is discussed.

6.3 CORPORATE IDENTITY/REPUTATION: MULTIPLE OR SINGLE?

Based on the drivers in the models discussed above and in much of the prevailing literature on corporate reputation, it would appear that current thinking generally suggests that by attending to each of the identified drivers or dimensions, an organisation will achieve a strong corporate reputation, which will lead to all the benefits as outlined earlier in this section.

In addition, the current literature generally seems to indicate that different drivers would be of greater or lesser importance to different stakeholders, suggesting that an organisation needs to build multiple reputations to meet the needs of its various stakeholders.

In reference to his study regarding the development of an ontology and a more effective way to measure corporate reputation that takes into consideration the orientations of an organisation's various stakeholders, Lloyd (2007:x) reports that the results of the study indicate that, in the eyes of its stakeholders, an organisation's reputation is driven by nine factors. However, Lloyd observes that the nine drivers do not share the same degree of relevance for stakeholders and that different stakeholder groups rank the importance of the dimensions of corporate reputation differently, which indicates, according to Lloyd, that they evaluate the reputation of the same organisation differently. "The drivers of stakeholders' overall evaluations of a company's reputation vary by stakeholder segment. Stakeholder groups are seen to display the characteristics of segments."

In remarking on the diverse perspectives in the literature that deal with stakeholder-specific reputations, Helm (2007:239-240) distinguishes between those authors who assume that an organisation has multiple reputations (such as Lloyd), since they believe that reputational perceptions are matched within stakeholder groups, and another group of authors who assume that reputational perceptions converge across stakeholder group boundaries, forming a general (single) reputation of the organisation.

Based on the results of an empirical study that she conducted in 2007 to determine if and how reputations differ between stakeholder groups, Helm (2007:243) concludes that no evident need could be found to build stakeholder-specific (and therefore possibly incomparable) reputations and reputation measures for a single organisation.

To substantiate her conclusion, Helm (2007:249-250) reports that there are no significant differences between the stakeholder groups when rating the multi-faceted measure of reputation; that the different facets (based on the key reputation drivers) seem not to represent the entire set of reputational criteria that are relevant to form an overall impression of corporate reputation; that not all stakeholders have a discernible knowledge of the various drivers of the reputation of a specific organisation and that stakeholders often use 'intuition' when they assess an organisation. This means that when they have insufficient knowledge about some reputational driver, they may judge the organisation according to the characteristics that are familiar to them.

This study contends that a for-profit organisation that wants its stakeholders to trust and support it, even (and especially) when they do not have all the facts at their disposal, needs to focus on building a single, overall reputation on the back of its identity as an ethical and trustworthy organisation in everything that it does.

Stakeholders' trust, as an 'expression of faith' in the organisation (characterised by affect, based particularly on their belief in the moral character or 'goodwill' of the organisation as the trustee in the trusting relationship) occurs because an emotional bond is created between stakeholders and the organisation, enabling them to move beyond the expectations that reason, knowledge and experience warrant and to take a 'leap of faith' that their trust will be honoured by the organisation (Bachmann, 2006:395; Mishra, 1996:265; Möllering, 2006:370-371; Wicks *et al*., 1999:100).

This view is supported by Helm and Gray (2009:66), who observe that although it can be argued that an organisation could have "… as many reputations as there are distinct social groups (collectives) that take an interest in them", based on the diverse perspectives, expectations and needs of the various stakeholders that an organisation has, a single reputation, based on the trustworthy identity of the organisation, is more fundamental to meeting the diverse needs of all stakeholders. Helm and Gray (2009:66) note: "... if there were an underlying consensus, a general understanding of the core of what makes the reputation of a specific firm, it is more likely to be based on perceived trustworthiness than on competence".

While scholars such as Balmer and Greyser (2003:18,250), Pratt and Foreman (2000:141) and Brickson (2000:147) contend that organisations tend to possess multiple identities, this study supports the alternative view that most organisations will also be characterised by one overarching or meta-identity that most participants would recognise (Brown & Starkey, 2000:149).

The idea of a single corporate identity – or what Hogg and Terry (2000b:150) refer to as a 'salient superordinate identity' – is in line with Gestalt psychology, which holds that holistic perceptions of the whole lead to a more intense mental effect than the summed perceptions of the parts (Helm, 2007:250). Examples of the type of organisation in which individuals across subunits share a common identity include Ouchi's Theory Z organisation, where leadership styles are blended and diffused through the entire organisation, and Mintzberg's missionary organisation, in which members strongly subscribe to a common set of values (Ashforth & Mael, 1989:22).

Organisational trustworthiness can be viewed as a comprehensive construct that allows stakeholders to make sense of an organisation in a pragmatic manner, since the sum of collective impressions can operate as a shared reputation of the organisation (Gillespie & Dietz, 2009:130). As such, it is posited that instead of a for-profit organisation trying to merge and manage the different perceptions of its different stakeholder groups, it should rather set out to adopt a single identity that is core to its strategic business objectives (becoming a trustworthy, ethical corporate citizen in everything it does, to realise the many benefits inherent in such a strategic approach, best of which is that it ensures its own sustainability), and then consistently focus on making that identity an authentic reality.

In doing this, the organisation will then focus on managing *its accountability* to and its relationship with its stakeholders, rather than trying to manage *its stakeholders and their perceptions* or multiple relationships (Owen *et al*., 2000:89). Changing its strategic focus to manage its own accountability and demonstrate its trustworthiness to all its stakeholders, rather than trying to manage its different stakeholders and expectations (Owen *et al.*, 2000:89), will best enable a for-profit organisation to meet its stakeholders' needs and resolve any possible conflicting interests (Bañon Gomis *et al*., 2011:185), whilst building a strong corporate reputation, one that will help it to earn the trust and support of its stakeholders and so ensure its own sustainability.

In accepting the view of a single corporate identity, the idea is extended to a view of a single corporate reputation. A single corporate identity and corporate reputation can also be referred to as a general or overall identity and reputation. It is held that a single identity and reputation will also be a more valuable asset and stronghold in any crisis that the organisation is might find itself in (Helm, 2007:243). This concept of a single corporate reputation differs from those authors who support the idea of devising a separate measure of corporate reputation for each stakeholder group, and then weighing the importance of each group and combining the multiple assessments to arrive at a single reputation score (Bromley, 2002:41; Caruana, 1997:110).

7 THE ROLE OF COMMUNICATION IN IDENTITY/REPUTATION

7.1 CORPORATE COMMUNICATION AS FOUNDATION AND PRIMARY MECHANISM

As mentioned earlier, corporate communication as a construct is regarded as being on a different level than the constructs of corporate identity, culture, image and brand – as being simultaneously both the foundation of the organisation's identity and reputation, as well as the overarching primary mechanism with which the organisation can establish an authentic identity and reputation through its culture and image-building activities.

The primary role of communication to express and represent an organisation's authentic identity, enable it to become a trustworthy organisation and establish an authentic corporate reputation will now be discussed (Cooren *et al*., 2011:1153; Di Maria & Iwata, 2007:6,7; Fombrun & Van Riel, 2004:177; Gioia *et al*., 2000a:64).

7.1.1 <u>Communication as the foundation of corporate identity</u>

In order to influence how an organisation is perceived according to how it wants to be perceived, it needs to change who it believes itself to be (Fombrun & Van Riel, 2004:178). It is held that an organisation that wants to earn its stakeholders' trust, approval and support needs to fulfil both actions: to become and build a reputation as a trustworthy, responsible organisation (King, 2009:22).

This study maintains that corporate communication fulfils a strategic function that is much more crucial than just informing stakeholders about who it is – it is argued that communication actually *constitutes* who it is (Di Maria & Iwata, 2007:16,24; Fenton & Langley, 2011:1172,1192). According to Cooren *et al*. (2011:1150-1151), organisations are 'communicatively constituted', in that communication is not just something that happens in an organisation, but something that constitutes, produces or alters organisational forms and practices, whether these are strategies, policies, operations, values, formal or informal relations, or structures.

Since an organisation is constituted through communication, and the use of language within it, it is therefore only possible to conceive and talk of an organisational identity as "… grounded in language and as having 'no existence other than in discourse, where [its] reality is created, and sustained, to believe otherwise is to fall victim to reification'" (Cooren *et al*., 2011:1159).

Corporate communication should then be seen as the ongoing, dynamic, interactive process of employing symbols toward the creation, maintenance, destruction, and/or transformation of meanings that are principal (and not marginal) to organisational existence. Cooren *et al*. (2011:1152) emphasise that human beings live by inference, which means that "… any performance will never be reducible to the way it was intended or meant by its producer. For instance, what policies, decisions or job descriptions mean and cause is certainly something that organizational authorities try to control, but a constitutive view ought to take into account how their meaning and action are negotiated, translated and/or debated".

Corporate communication generally concentrates on signifying, denoting, representing and achieving a collective identity (Cooren *et al*., 2011:1160). Whereas communication studies used to be a matter of merely showing how symbolic activity generates social realities, contemporary communicative thinking considers "… how the ideational and material – as in those buildings, strategies, statuses, operations, bodies, conversations, art, photographs, and documents – are co-implicated and co-constituted in organizing" (Cooren *et al*., 2011:1153).

This means that everything an organisation does, from its vision statement to the buildings it occupies, helps to constitute the organisation, in that it communicates meaning. In this sense, the organisation itself, its rules and processes, is an ongoing product of its own meaning-making practices (Cooren *et al*., 2011:1153).

Collective sense-making, to the extent that it involves communication, "… takes place in interactive talk and draws on institutionalised resources of language in order to formulate and exchange through talk symbolically encoded representations of the jointly experienced circumstances. As this occurs, a situation is talked into existence as the basis for collective action." (Cooren *et al*., 2011:1158). This means that communication and the collective sense-making that transpires from it "… is an act of turning circum-stances 'into a situation that is comprehended explicitly in words and that serves as a springboard to action'".

According to Cooren *et al*. (2011:1154), the central concern of organisation is process, and as such they note that it is only in and from the ongoing flow of interaction that organisation emerges. Communication, its process of sense-making and organising, is then an important force of organising and can actually be regarded as the building block of organisations (Cooren *et al*., 2011:1157-1158).

A general assumption underlying scholarship in strategy-as-practice, organisational sense-making, organisational identity and theory of organisations, is that communication organises – that it creates order out of potential disorder. As such, the function of communication is held to be "… essential in solving important social problems, particularly those related to a perceived lack of community, a threat to cultural continuity, or a need for a smoothly-functioning social system" (Cooren *et al*., 2011:1160).

With this perspective of organisational sense-making, an organisation is therefore not taken as a given, but is rather seen to be emerging in, and indeed constituted by or personified in public episodes of communication. According to Cooren *et al*. (2011:1158), this means that organisations are constantly (re)produced, (re)incarnated, and (re)embodied in local interactions, and are thus subject to change and renewal.

This is in line with the suggestion made by Gioia *et al*. (2000a:63-64) that an organisation's identity is not fixed and enduring, but that it is dynamic since it is influenced by the organisation's image (its communication). These authors' definition of image is similar to Grunig's definition, and the definition used in this study, where image is defined as *"… something that a communicator creates – constructs and projects or gives to other people – who are often called receivers"* (Grunig, 2003:210). In this sense, image refers to a message that is developed and produced by the organisation.

Gioia *et al*. (2000a:64) argue the importance of 'adaptive instability' in organisational identity, suggesting that leaders can enhance the adaptability of their organisations through their unique influence over the interrelationship between corporate identity and image (Brickson, 2000:148). These authors differentiate between an enduring identity and an identity that has continuity, where an identity with a sense of continuity "… is one that shifts in its interpretation and meaning while retaining labels for 'core' beliefs and values that extend over time and context" (Gioia *et al*., 2000a:64).

While an organisation's identity is imputed from its expressed mission and central values which stay the same, the interpretation of those values is not necessarily fixed or stable, and the representations and translations of those values into action take different forms over time. Thus, even though the core appears stable, it is effectively in flux because of its practical ambiguity (allowing for flexible interpretations), and its complexity (allowing a repertoire of values to fit many instances) (Gioia *et al*., 2000a:64). An organisation can also intentionally change its identity, as proactive preparation for envisioned change that it wants to implement to maintain its viability (Gioia *et al*., 2000a:77) or in order to respond to stakeholders' needs (Scott & Lane, 2000b:144).

It is suggested that this adaptive instability in identity is beneficial to an organisation because it allows better adaptation to the demands of an environment that is itself undergoing continuous change (Brown & Starkey, 2000:149; Gioia *et al*., 2000a:64). As

Gioia *et al*. (2000a:64) observe: “On the one hand, the creation and maintenance of an apparently enduring identity are essential to long-term success; … on the other hand, organizations must possess the ability to adapt quickly to increasingly turbulent environments as an essential condition for well-being and even survival”. As such, it is argued that organisations must learn to change and yet somehow stay the same.

The leaders of an organisation play an especially important role in shaping identification processes, in that they are formally charged with authority over identification processes, have access to the necessary organisational resources to have an impact and can actively question, alter and define their organisation’s identity (Scott & Lane, 2000a:47). Leaders can also flexibly choose and construct the organisational image for presentation to stakeholders for strategic reasons.

“Corporate reputation building is principally concerned with promoting attractive organizational images for purposes of goal attainment, and it is the primary job of leadership to manage organizational identity toward that end.” (Scott & Lane, 2000a:47). As Brickson (2000:148) observes, “… this form of managerial discretion has profound and far-reaching consequences for the well-being of individuals and for the livelihood of organizations” (Brickson, 2000:148).

According to Scott and Lane (2000b:143), both identity change and identity endurance are adaptive responses to the needs and demands of an organisation’s stakeholders, and they hold that an enduring organisational identity can result from an organisational community that is “… built on common values and norms, characterized by social entanglements and commitments, in which group members reinforce each other’s beliefs and participation”.

Values can then be regarded as the ‘glue’ that shapes behaviour and unites organisational goals in an authentic organisation (Di Maria & Iwata, 2007:29). A stable, authentic corporate identity is then held to be a function of an enduring organisation/ stakeholder relationship (Scott & Lane, 2000b:143) as well as authentic communication (Di Maria & Iwata, 2007:21).

Commenting on the strategic role of corporate communication, Di Maria and Iwata (2007:16,20,21,24) emphasise that the role has changed fundamentally, in that the focus has moved from corporate communicators trying to change stakeholders' perceptions, to a focus on helping the leaders to change realities and the culture in the organisation. Corporate communicators should then no longer only focus on trying to 'position' their organisations – they should help to define them.

7.1.2 Role of communication in corporate reputation

The concept of communicative constitution is critical for the development of a corporate reputation that is aligned with the organisation's corporate identity. Cooren *et al*. (2011:1152) note that "… organizational values, knowledge, or ideologies can be conveyed, incarnated and constituted not only through what people say and write, but also through what they wear, how they look, and how they gesture or behave. Furthermore, such values, knowledge, or ideologies should not be understood as only carried out by human agents, but also by nonhuman ones – that is, documents, architectural elements, pieces of furniture, and technologies." As such, an organisation cannot just attempt to create a façade by trying to portray itself as something that it is not. There are too many ways in which it can betray itself, by communicating (verbally or non-verbally; directly or indirectly) who it really is.

Stakeholders' opinion of the organisation, developed over time, is based on their direct experiences with the organisation's behaviour, as well as any other forms of communication and symbolism they receive from the organisation or from other sources, that indirectly provide information about the organisation's actions. These in turn shape what they believe the organisation stands for (who and what it is), and their assessment of its ability to fulfil their expectations in the future, based on its past and present actions (Barnett *et al*., 2006:36; Caruana, 1997:109; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29).

This perspective makes a definitive link between identity and reputation, in order to build a trustworthy organisation to ensure corporate sustainability.

In this study the concept of expressive corporate communication is highlighted. In essence, expressive communication holds that an organisation that wants to establish a sustainable corporate reputation should utilise effective communication with all its stakeholders, in order to establish and present an authentic corporate reputation and become a trustworthy organisation (Cooren *et al*., 2011:1153; Di Maria & Iwata, 2007:6,7,29,21; Gioia *et al*., 2000a:64).

According to Fombrun and Van Riel (2004:177), a primary mechanism for achieving authenticity is expressive communication, which "… seeks to represent the organization's identity rather than to grab attention and manipulate impressions". It is then posited that the challenge for a for-profit organisation that wants to earn a reputation as an ethical and trustworthy organisation is to ensure that all its communicative products "… condense a myriad of conversations into a single abstract representation of collective identity and intention" (Cooren *et al*., 2011:1154).

In this case, authenticity can then be described as "… a state in which the internal identity of the company reflects positively the expectations of key stakeholders and the beliefs of these stakeholders about the company reflect accurately the internally held identity" (Fombrun & Van Riel, 2004:177).

Communication is then necessary to coordinate and control collective action in the organisation, and to present a single, authentic identity to its stakeholders (Di Maria & Iwata, 2007:21). "In doing so, it shifts from impression management to expressive communication, which stakeholders are likely to reward with deeper trust and commitment. Thus, the sustainability of a company's reputation as an asset is also better ensured." (Fombrun & Van Riel, 2004:178). Expressive communication then helps to explain the relationship between the constructs of corporate trust and reputation, as defined in this study.

Strategic corporate communication then means that it is no longer only about telling the same 'good' stories, it is about helping the leaders of an organisation to create an authentic, trustworthy organisation. Since an organisation's true character is expressed by its people, corporate communicators play a crucial role in helping to change the culture of an organisation. Di Maria and Iwata (2007:21) refer to the corporate communicators of today as the 'shepherds' of an organisation's reputation and authenticity.

In this study, corporate reputation is then seen to be about managing primarily what happens inside an organisation – how it manages its own identity internally – and how it presents itself externally to its stakeholders, in order to guide and influence their perceptions and opinion (Chun, 2005:105; Fombrun, 1997:10; Fombrun & Van Riel, 2004:259) about the trustworthiness of the organisation by familiarising them with who and what the organisation is (Luhmann, 1979:19; Pirson, 2009:9) through its collective and aligned corporate communication activities.

This in turn influences stakeholders' assessment of and regard for the organisation; their levels of trust – and on this basis their future behaviour towards and support of the organisation is determined.

8 THE LINK BETWEEN IDENTITY AND REPUTATION

Since corporate identity is viewed as the very foundation of an organisation's corporate reputation, the key elements that influence the corporate identity/reputation relationship will now be discussed in order to identify what an organisation needs to do to build and sustain a strong corporate reputation; one that will lead to earning its stakeholders' trust.

Corporate reputation is defined in this study as *the collective assessment that all relevant internal and external stakeholders make of the trustworthiness of an organisation; of its character, which influences their decision to trust and their actions to support the organisation* (Chun, 2005:105; Fombrun & Van Riel, 2003:230). As such, identity is regarded as the very foundation of reputation (Walsh *et al*., 2009:188). A reputation is then dependent on how well its stakeholders know who it is, and on how strongly they can identify with it.

There is an array of definitions and models depicting the concept of corporate identity and its link to corporate brand and reputation management. Many of these are quite complex, involving a multitude of different forms of corporate identities, such as Balmer's AC^{2}ID Test™ and AC^{3}ID TEST™, which deal with five and six identity types respectively, described as Actual, Communicated, Conceived, Ideal, Desired and Covenanted identities. In addition to the conceptualisation of multiple identities, these models also suggest that certain types of identity affect certain stakeholder groups to a greater or lesser degree (Balmer & Greyser, 2003:12,16-18,250-251).

This researcher proposes a more modest and simpler definition and approach to organisational identity and identity management, particularly with a link to a corporate reputation management process that will lead to earning stakeholders' trust. Although Balmer and Greyser (2003:16) consider the premise of corporate identity as a monolithic phenomenon as being "… narrow and inadequate", the concept of a single, core corporate identity (Helm, 2007:243) is proposed in this study; one that is value-based, in order to enhance the likelihood of stakeholder identification with the organisation, as held in identity theory.

Since the loss of stakeholder trust is regarded as one of the most significant threats to the long-term economic sustainability of a for-profit organisation in today's society, it is argued that it is not sufficient for an organisation merely to have a good corporate reputation, but that it needs to develop a reputation that will enhance stakeholders' trust. It is further held that this will only be possible if the organisation actually becomes an ethical organisation, which proves itself worthy of its stakeholders' trust by becoming (identity) and by being seen to be (reputation) a trustworthy and ethical organisation (King, 2009:26).

Essentially, this study posits that a for-profit organisation's ability to ensure its long-term economic success in a sustainable manner, in fact its own long-term economic corporate sustainability, is unequivocally linked to the organisation's ability to be trustworthy (Ingenhoff & Sommer, 2010:339; King, 2009:100).

Gillespie and Dietz (2009:430) note that while organisational trustworthiness is a collective construct that originates at the level of individuals' perceptions, it can in the aggregate of collective impressions operate as a shared reputation of the organisation.

Mayer *et al.* (1995:728) note that "… a reputation evolves from patterns of previous behaviour". Since consistent trustworthy behaviour by the organisation results in a good corporate reputation (Hosmer, 1995:386), it is therefore critical for organisations to understand and embrace this close relationship between trust and reputation.

Corporate reputation is regarded in this study as the assessment that multiple stakeholders make of an organisation, where their opinion or assessment of the organisation is intimately related to the identity of the organisation (King & Whetten, 2008:193). This is based on the view that an organisation cannot directly control how its stakeholders perceive and assess it (its reputation), but that it can control who it is (its identity or character) – or rather, who it promises its stakeholders to be, how it behaves and how it presents itself – in order to provide the basis on which stakeholders can make their assessments of the organisation (Barnett *et al*, 2006:36; Chun, 2005:105; Fombrun & Van Riel, 1997:10; Fombrun & Van Riel, 2003:230; Gotsi & Wilson, 2001:29).

In essence, corporate reputation can then be seen as stakeholders' assessment of how well the organisation is managing its own identity – of how well it is delivering on its reputation promise. It is held that the smaller the gaps, as perceived by the stakeholders, are between that which the organisation presents as its identity (the ideal, or reputation promise), its actual behaviour and the image that it presents of itself through its total corporate communication activities, the stronger and more credible its reputation would be.

In other words, the greater the alignment between what the organisation promises, what it does and what it says, the greater the likelihood that stakeholders will positively assess and regard the organisation (Chun, 2005:105; Davies *et al*., 2010:532). This forms the basis of the new strategic alignment approach towards corporate reputation management proposed by this study.

In explaining this new approach and in order to develop the new *Strategic Alignment Reputation Framework*, the *Vision-Culture-Image (VCI) Alignment model* as developed by Hatch and Schultz (2008:11), which is in line with the relational approach discussed earlier, is used as point of departure. A brief overview of the *VCI Alignment model* is provided next, after which the key elements of the new model are discussed.

8.1 THE *VCI ALIGNMENT MODEL* AS POINT OF DEPARTURE

The *Vision-Culture-Image (VCI) Alignment model* (see Figure 7) has at its centre the organisational identity construct (Hatch & Schultz, 2008:11). Olins, who pioneered the concept of corporate identity, defines it as a central idea or set of ideas; a combination of names, symbols and experiences; as well as qualities, emotions, attitudes and style (Hatch & Schultz, 2008:29). “Corporate identity is about these things. It is about how behaviour and appearance symbolize the reality, reflect the reality and underline the reality all at the same time.” (Olins, 2003:56).

In this study corporate identity is regarded as being held objectively – that is, it has a reality independent of individual observers, although it is arrived at subjectively (Scott & Lane, 2000a:43). It is argued that the ‘real’ identity of an organisation only emerges or comes into being at the intersection of that which the organisation promises its stakeholders to be, what it says and how it behaves (Hatch & Schultz, 2008:13; Olins, 2003:56).

This idea also informs the *VCI Alignment model*, in which Hatch and Schultz (2008:12) propose that the strength and authenticity of an organisation’s identity or brand is determined by the level of alignment between the strategic vision of the organisation (its brand promise), the organisational culture and stakeholder images. Hatch and Schultz (2008:12) describe these three concepts as “… pieces of a jigsaw puzzle” – each a separate yet intimately related concept – which collectively reflect the identity or brand of the organisation. “Put into place, they form an integrated, expressive, and satisfying whole that builds strong corporate reputations while integrating organizational behaviour behind delivery of the brand promise to all the stakeholders who make up the enterprise.” (Hatch & Schultz, 2008:12).

Hatch and Schultz (2008:xviii) developed this as a diagnostic model to assist an organisation to determine how well it is managing its corporate brand. The basic principle of the *VCI Alignment model* is that the greater the coherence of vision, culture and images, the stronger the brand (Hatch & Schultz, 2008:11). “The combination of vision, culture, and images represents in one way or another everything the organization is, says and does” (Hatch & Schultz, 2008:13), in other words its organisational identity.

The *VCI Alignment model* then suggests that the greater the alignment between what an organisation wants to be (vision), how it behaves (culture) and how it is perceived by its stakeholders (images), the stronger its brand would be.

Figure 7: The *VCI Alignment model* – developed by Hatch and Schultz (2008:11)

Since corporate identity is regarded as the foundation of corporate reputation (King & Whetten, 2008:193), the basic concept of the *VCI Alignment model* as proposed by Hatch and Schultz is supported in this study, but their model, focus and definitions are adapted to be in line with the new strategic alignment approach to corporate reputation management proposed by this researcher.

As discussed earlier, in contrast to the basic underlying assumption of the relational approach, namely that an organisation has many reputations which it has to manage, measure and align, the basic underlying assumption of the strategic alignment approach to corporate reputation management proposed by this researcher is that an organisation should focus on managing a single reputation – one that will result in all its stakeholders assessing it as an ethical organisation that is worthy of their trust and support.

In line with this, three main differences between the new *Strategic Alignment Reputation Framework* proposed by this researcher and the *VCI Alignment model* of Hatch and Schultz (2008:11) are identified.

In the first place, the strategic focus is different. While Hatch and Schultz (2008:11) developed their model to assist an organisation to determine how well it is managing its corporate *brand*, the new *Strategic Alignment Reputation Framework* aims to assist an organisation to manage and measure how well it is managing its corporate *reputation* (of which branding is argued to be a subset).

In the second place, two key elements (Strategic vision and Stakeholders' images) are positioned and defined differently, as will be discussed later.

In the third place, the *VCI Alignment model* includes the image or opinions of stakeholders inside the model, while this is excluded in the new *Strategic Alignment Reputation Framework*, which positions how stakeholders perceive and assess an organisation external to the reputation management process, since it is argued that stakeholders' assessment is based on the total outcome of the organisation's reputation management process. Instead, only that which is within an organisation's *direct* control

– that which it can manage – is incorporated into the strategic reputation management process, as a new way to conceptualise and define corporate reputation.

The key elements of reputation, as defined in this researcher's new strategic alignment approach/*Strategic Alignment Reputation Framework* vis-à-vis the relational approach/ *VCI Alignment model*, are now outlined.

9 KEY ELEMENTS OF NEW STRATEGIC ALIGNMENT APPROACH

In the new strategic alignment approach to reputation management, it is held that stakeholders' collective assessment of an organisation, which is its corporate reputation, is based on and determined by the organisation's intrinsic normative characteristics as well as the authenticity with which it consistently expresses its ethical, value-based identity. The core assumption of this new approach then lies in the statement that it is the level of congruence and alignment between all the ways in which it expresses itself to its stakeholders (between all the key strategic reputation elements – who it sets out to be; how it is seen to behave; and what it says and presents about itself) that collectively contributes to who it really is and is perceived to be by its stakeholders.

This study argues that the identity of an organisation does not consist of a solitary element, but that it is the sum total of a number of elements that collectively constitute the organisation's identity; how stakeholders can 'see' and 'experience' its character, or as Fombrun and Van Riel (2004:44) observe *what* the organisation is recognised for. As such, it is held that the real identity of an organisation only emerges when that which the organisation promises its stakeholders to be, how it behaves and what it says and how it presents itself to its stakeholders converge (Hatch & Schultz, 2008:13; Olins, 2003:56).

Based on this proposition, three key elements in the corporate identity-corporate reputation relationship can then be identified that have a crucial impact on how stakeholders perceive and ultimately assess an organisation. Although these elements are similar to the elements included in Hatch and Schultz's *VCI Alignment model* (2008:11), this researcher defines them differently. The changes in defining these elements also change the intrinsic focus of the new proposed approach.

9.1.1 Reputation promise: 'Who we set out to be'

The first key element in the new strategic alignment approach is similar to the element of 'Strategic vision' in the *VCI Alignment model* (Hatch & Schultz, 2008:11), but is defined as the 'Reputation promise' of the organisation by this researcher. Since the organisation's core identity is regarded as forming the foundation of its corporate reputation (King & Whetten, 2008:193), the organisation's articulation and collective self-definition of its core identity or character – that which it sets out to be, in fact which it promises its stakeholders to be; that which it stands for; that which it is willing to commit to and be held accountable for (Balmer & Gray, 2001:979; Barnett *et al*., 2006:28,33; King & Whetten, 2008:195) – is regarded to be the first element that has an impact on the corporate identity-corporate reputation relationship, and as such constitutes the first key element of the strategic alignment approach to corporate reputation management.

While this element undeniably incorporates the leadership's strategic vision for the organisation – the term that Hatch and Schultz (2008:11) use in their model – the term reputation promise is preferred by this researcher for two reasons. The first is because an articulated promise should reflect the essential core of the leadership's strategic vision for the organisation and the second is because it describes the close relationship between an organisation's corporate identity and its corporate reputation more accurately.

- ***Reputation promise reflects the essential core of leaders' strategic vision***

A for-profit organisation's strategic vision and the identity or character that it wants and sets out to develop will inevitably need to address the challenge of dealing with the diverse perspectives, expectations and needs of the various stakeholders of the organisation. In order to overcome this challenge, it is argued that the leadership should rather set out to adopt a single, value-based identity, as discussed earlier in this section. This will allow the leadership to authentically align the organisation's strategic vision and business objectives to its identity.

In this study, and in line with social and organisational identity theory, the crucial role of values in an organisation is highlighted. It is then held that leaders who want to create and maintain a sustainable and trustworthy for-profit organisation and establish a sustainable corporate reputation that will earn its stakeholders' trust and support need to start the journey by revising their organisation's identity, its inherent character.

According to Moss Kanter (2011:68), leaders of today's great organisations do not view organisational processes merely "… as ways of extracting more economic value, [but rather] create frameworks that use societal value and human values as decision-making criteria" (Moss Kanter, 2011:68). This then calls for the leaders to develop an institutional perspective and to define their organisation around its purpose and values. "Purpose and values – not the widgets made – are at the core of the organization's identity, and they can guide people in their efforts to find new widgets that serve society." (Moss Kanter, 2011:69). As such, she holds that leaders are fulfilling their central leadership function, which is to make meaning and provide a purpose that gives coherence to the organisation, by providing employees with an identity that is grounded in something larger than transactions or business portfolios (Moss Kanter, 2011:70).

This is also in line with Fukuyama's (1995:34) view of identity and definition of culture as "… inherited ethical habit", which he emphasises is something that cannot be acquired through rational means. He cites Aristotle's differentiation between 'intellectual virtue' and 'ethical virtue', and notes that "… ethical virtue [ēthikē] is for the most part the product of habit [ethos], and has indeed derived its name, with a slight variation of form, from that word" (Fukuyama, 1995:36, citing Aristotle from *Nichomachean Ethics* Book II i.8).

In further drawing on Aristotle's explanation that "… our moral dispositions are formed as a result of the corresponding activities", Fukuyama notes that Aristotle held that "… for people to be truly virtuous, they must habituate themselves to virtuous behaviour such that it becomes a kind of second nature that is pleasurable in itself, or if not pleasurable something that the virtuous man takes pride in" (Fukuyama, 1995:36,369, citing Aristotle from *Nichomachean Ethics* Book II iii.2).

Fukuyama then argues that the close relationship between moral virtue (as a rational choice) and habit is evident in the concept of character, when he notes: "One can easily know the right thing to do intellectually, but only people with 'character' are able to do them under difficult or challenging circumstances." (Fukuyama, 1995:35-36; Marsden & Andriof, 1998:338). This necessitates that leaders should strive to adopt a value-based identity as the building block for the 'character' of their organisation, so that ethical decisions and behaviour will become 'habitual' in their organisation. It is then held that the adoption of a single, value-based identity will guide the organisation to make ethical decisions (that are both legal and morally acceptable to the larger community) in all it does (Jones, 1991:367).

Since the commitment of the organisation's leaders to the strategic vision and identity of the organisation does not mean that it has been achieved already, this concept is referred to as the organisation's reputation promise by this researcher.

- ***Reputation promise: leaders' articulation of the organisation's identity***

Leaders that want to redefine their organisation's identity to enhance stakeholder identification need to do more than merely adopt a value-based identity – they also need to clearly articulate and spell out the desired character of the organisation, its culture, its characteristics, the relevant values and the primary behaviours that will lead to these new, desired qualities (Jones, 2007:51). As such, Cooren *et al*. (2011:1156) hold that the production and conduct of strategy in organising is increasingly seen as a communicative accomplishment.

The role of leadership in this respect is critically important, in that they need to formulate an appealing and realistic reputation promise (Murray & White, 2005:350), or what Fombrun and Van Riel (2004:133) refer to as a reputation platform, which can assist them to move beyond the rhetoric of ethics, responsibility and sustainability and "… to formulate a clearer conceptualisation of their desired sustainability outcomes and overall direction" (Jamali, 2006:817).

As Fombrun and Van Riel (2004:133) observe, although an organisation may over time "… tell multiple stories to its stakeholders, the best regarded companies tell stories that are rooted in a core reputation platform". They cite Johnson & Johnson, the U.S. medical products group which consistently scores high in consumer rankings of trust, and emphasise that this is not by accident, since the company has its promise of trustworthiness as "… the focal point of all its communications" (Fombrun & Van Riel, 2004:133). This researcher posits that the reputation platform or promise that will enable corporate sustainability is one where stakeholders are able to perceive and assess the organisation to be a trustworthy, ethically responsible corporate citizen within the vision it sets for itself (Moon & Muthuri, 2008:62).

It is also held that such a reputation will increase the probability for the organisation to gain a long-term competitive advantage, as well as helping it to foster and build stakeholder trust and so ensure its own corporate sustainability (O'Connor, 2001:54). This was empirically tested in the May 1999 Millennium Poll, where more than 25 000 citizens across 23 countries on six continents were interviewed. The results of this research revealed that "… impressions of individual companies are more shaped by corporate citizenship (56%) than either brand quality/reputation (40%) or business fundamentals (34%)" (O'Connor, 2001:54).

In order to develop the proposed reputation promise of being a trustworthy, responsible corporate citizen in everything the organisation does, the leadership already take their first step towards establishing this reputation when they adopt a proactive ethical stance towards sustainability (Cartwright & Craig, 2006:748; Fombrun & Foss, 2004:285).

However, the leadership then also need to demonstrate their commitment and the fact that they have fundamentally shifted their strategic priorities – away from a short-term profit focus towards a long-term sustainability focus, based on moral rather than rational norms (Cartwright & Craig, 2006:749; Moss Kanter, 2011:68). This change will be reflected in a change in the vision, mission, strategic objectives and performance measures as set by the leadership (Jamali, 2006:816), and will inform the reputation promise that the leadership articulate as their ideal. As such, their corporate strategy, objectives, decisions and actions must reflect their change in focus (Eccles *et al*., 2006:355).

This requirement for the leaders to clearly spell out who the organisation is, what it commits to and what it promises its internal and external stakeholders to be, is aptly demonstrated in Wood's (2002:63) description of an organisation's code of ethics: "The soul of the corporation should be exposed to its own people and those outside of the corporation with whom it deals through its code of ethics. It is within the written code that the organisation expresses what it sees itself as, what it wants to be seen as, and hopefully, what it wants to be. Codes are the public face of the corporation. They showcase the company persona to the world."

In essence, the leadership's articulation of the organisation's corporate identity can then be seen as the reputation promise that the organisation makes to its stakeholders – of that which it stands for; wants to be known for; and is willing to be held answerable for. The concept of a reputation promise is regarded as being similar to the 'brand promise' referred to in marketing management literature, which refers to the explicit promise or pledge between an organisation and its stakeholders (Balmer & Gray, 2001:982), in other words, it encapsulates that which stakeholders can hold the organisation accountable for. According to Hatch and Schultz (2008:26), Johnson & Johnson takes its commitment to its (brand) reputation promise so seriously that it calls its corporate brand a 'trustmark'.

9.1.2 Culture: 'How we are seen to behave'

The second key element in the new strategic alignment approach to corporate reputation management is the organisation's actual behaviour, its culture, which is defined in this study as *the actual validation and demonstration of the organisation's identity, how it translates into actual organisational behaviour* (Blois, 1999:211; Rangan, 2011:4) and it is seen to provide employees with a guiding framework *ex ante* of how the organisation will react to circumstances as they arise (Bandsuch *et al*., 2008:108; Blois, 1999:211).

Rangan (2011:4) maintains that when leaders transform the culture of their organisation, they "… make a durable contribution, because culture embodies the memory of the organisation". As Chun (2005:96) observes: "If identity is 'how we see ourselves' … culture is 'how we do things around here'". This element is similar to the element of 'Organisational culture' in the *VCI Alignment model* (Hatch & Schultz, 2008:11).

Jones (2007:177-178) argues that an organisation's culture, defined as *the set of shared values that shapes and controls behaviour within the organisation as well as with external stakeholders*, can be used to achieve organisational effectiveness, gain a competitive advantage and promote stakeholder interests. He distinguishes between terminal and instrumental values, the first being defined as *"… a desired end state or outcome" that the organisation seeks to achieve,* which is similar to the definition of corporate identity in this study. Instrumental values, according to Jones (2007:178), are defined as *the desired modes or patterns of behaviour that the organisation encourages in order for it to achieve its end state*, or as per the definition in this study, in order for it to truly live up to its desired corporate identity.

- ***Relevance of corporate values to guide behaviour/corporate culture***

Once the leaders of a for-profit organisation have committed themselves to create an ethical and sustainable organisation, they need to start the process of changing their organisation to support this commitment. Since values exert a major influence on the behaviour of individuals it is assumed that an organisation is capable of changing the behaviour of its employees by changing the value system that guides the decisions and actions they take on a daily basis in the fulfilment of their organisational tasks (Burke, 2011:151).

According to Jones (2007:179), many of the most powerful and crucial values of an organisation are not written down. An organisation's values (with regard to its identity and its desired patterns of behaviour) then exist "… only in the shared norms, beliefs, assumptions, and ways of thinking and acting that people within an organization use to relate to each other and to outsiders" (Jones, 2007:179).

This is then where leaders play a crucial role, namely to ensure that the values related to its ideal ethical identity become internalised over time, become part of the mindsets and personal value systems of the members associated with the organisation, which will affect their interpretations of a situation as well as their decisions on how to act. By creating a culture based on institutionalised values that will guide matters that are central to its single, value-based identity and by consistently and authentically focusing on making that identity a reality in the organisation – to transform it into actual behaviour – the leadership is ensuring an enduring organisation (Moss Kanter, 2011:69,71).

As a system, an organisation is capable of changing itself. The interdependent actions of the internal stakeholders who perform the various activities within the organisation, as well as the activities and the behaviour of its external stakeholders, lead to a constant development of the for-profit organisation as a system (Coleman, 1986:1312). This means that the goal-oriented actions and constraints of the organisation and of its stakeholders combine to bring about system-level behaviour.

Through the interdependent relationships between the various components, certain actions are facilitated and reinforced, and if these are repeated regularly over time, institutionalised patterns of thinking and behaviour are established. This in turn can change a for-profit organisation itself (Argandoña, 2008:441; Coleman, 1986:1312; Gillespie & Dietz, 2009:130; Selznick, 1948:25; Scott, 2008:442), into an ethical and a trustworthy organisation.

Moss Kanter (2011:72) refers to the role of CEOs in global organisations that she has studied, where they spent substantial resources, including their own time, to breathe new life into long-standing value statements and engage managers at different levels in the institutional task of communicating values. "The point was not the words themselves but the process of nurturing a dialogue that would keep social purpose at the forefront of everyone's mind and ensure that employees use the organizational values as a guide for business decisions." (Moss Kanter, 2011:72).

This is resonant of Selznick's (1948:30) observation that a formal organisation's maintenance and self-preservation as a system is dependent on the need for the leadership to cultivate a homogenous and consistent understanding of the organisation's character, role and values among its employees. Cultivating a uniform understanding of what the character of the organisation is meant to be will enable the organisation to change, since it will enable employees to behave in ways that will not violate the essential character of the organisation, that which it claims to be.

The need for leaders of a for-profit organisation to instil a culture of ethical and trustworthy behaviour, by instilling and institutionalising the organisation's core values to guide employees' behaviour, also needs to translate to the external environment. Organisations should ensure that the suppliers they use also act in line with their internal values, since unethical supply practices, for example, can cause reputational damage to the organisation (Moon & Muthuri, 2008:60; Moss Kanter, 2011:74) if the organisation presents its identity and character to be an ethical one.

An organisation that acts in a manner that is not authentic and aligned with its identity (Hatch & Schultz, 2003:1041) will actually harm its own reputation and lose the trust of its stakeholders when it is found out (Einwiller & Will, 2002:105; Fombrun & Van Riel, 2004:91).

- ***Importance of employees' behaviour / Partners in making identity a reality***

According to King (2009:100), it is the actions of an organisation, more than its communication, which shape the perceptions of stakeholders. Thus it can be held that the reputation of the organisation is built through its credible actions (Nguyen & Leblanc, 2001:229), which are grounded in its value-based identity and culture (Burke, 2011:152; Murray & White, 2005:350). Credibility, it is held, is determined by the congruence between an organisation's messages and actions (Nguyen & Leblanc, 2001:229).

This means that the leadership has to ensure that its ethical stance becomes ingrained in the organisation's culture, and that the consideration of corporate ethics and values will lie at the core of the organisation's vision, mission, goals, decision-making and behaviour (King, 2009:20), so that the organisation, and all its employees, can conduct themselves ethically and morally in a consistent and trustworthy manner (Cartwright & Craig, 2006:743; Ethics.org, 2009).

Translating the leadership's vision, the promise it makes to its stakeholders, into reality, into the culture of the organisation, also requires the integration of the vision into the strategies, practices, processes and measurement systems of the organisation. The institutionalisation of this vision depends on a long-term commitment to systemic change as well as the introduction of appropriate structures, practices and processes (Jamali, 2006:817).

This will involve among others working with their employees to redefine the organisational values (Fombrun & Foss, 2004:286) to align with the desired reputation promise, and implementing a corporate culture change programme, to make the desired behaviour a reality. It is believed that the principles that underlie the ideal reputation that the organisation wants to establish have to become internalised first (Jamali, 2006:816); and that the ideal reputation only gets communicated *en masse* externally when the principles supporting it are part of the fibre of the organisation.

This will require the leadership to move away from the narrow mindset of a watchdog culture because negative behaviour is expected from employees. According to Moss Kanter (2011:75), institutional logic holds that "… people are not paycheck-hungry shirkers who want to do the bare minimum, nor are they robots who can be ordered to produce high performance".

As such, leaders should instead embrace their key role of creating a culture where positive behaviour is fostered, one that is "… tolerant of different views, as well as the inevitable errors of judgement that will occur from time to time", so that they can create a culture that focuses on staff enhancement to assist better performance and ethical behaviour, rather than one that focuses on the need to control employees (Wood, 2002:63). This view is grounded in Selznick's argument that control depends on the extent to which the individuals in the system can be persuaded or encouraged to participate in the organisational goals (Selznick, 1948:26).

By recognising that an organisation is made up of individuals who interact with each other and the organisation as 'wholes', to use a Selznick term (1948:26), as social beings guided by material self-interest based on values and ideals, the leadership will treat their employees as emotional, non-rational individuals with their own sets of beliefs, values, habits, dreams, goals and commitments, and not merely in terms of their formal roles and functions in the system (Moss Kanter, 2011:75; Paine, 1994:113; Selznick, 1948:25,26). This implies that leaders will not just try and 'control' their employees to behave as they are expected, but that they will appreciate the value and contribution of employees, that they are part of creating the character of the organisation through their everyday behaviour.

The assumption that it is possible to create a corporate culture based on trustworthiness is based on the premise that people have the ability to adopt behaviour that is more focused on a regard for others, as opposed to always acting out of self-regard only. Stout and Blair (2001:83), in their review of the extensive empirical evidence that has been developed of human behaviour in social dilemma experiments, distinguish between the views of an individual as *homo economicus* – a hyper-rational and purely self-interested actor; and as *homo sapiens* – a social organism that is able to act out of concern for others.

While Fukuyama (1995:41) does not disagree with the economists' view of humans as fundamentally selfish and pursuing their selfish interests in a rational way, he also argues that humans have a moral side in which they feel obligations to others, to which they are capable of attending even when it is frequently at cross-purposes with their selfish instincts. He holds that the more developed ethical rules by which people live are nurtured through repetition, traditions and the example of others, the more these rules, which reflect a deeper adaptive rationality, are transmitted from one generation to another as a rational social habit, and that this in turn "… guarantee[s] that human beings never behave as [the] purely selfish utility maximizers postulated by economists".

The capacity that people have for socially contingent other-regarding behaviour, which is "… highly adaptive in species that rely on social interaction and exchange" (Stout & Blair, 2001:3;15,16) then also applies to corporate business relationships.

The term social in this study is therefore expanded to include the organisation's awareness and acceptance of the fact that its employees are not rational or passive actors, but rather active, social beings (Moss Kanter, 2011:75; Selznick, 1948:26). Essentially, employees are capable of making their own choices about which ideas to surface – they choose how to interpret the meanings put forth by the organisation, which infuse "… their actions with meaning based upon these perceptions" (Dacin *et al.*, 2002:47; Moss Kanter, 2011:75).

As such, it is posited that an organisation that bases its value-set on a strong ethical foundation will be able to create a trustworthy organisation, since it can translate its value-set into behavioural commitments, principles and behavioural directives, such as standards, norms and guidelines (King, 2009:26,119), which can then be used to guide, monitor, manage and reward the ideal behaviour. The importance of instilling an ethical culture is pertinently summarised by Jones (2007:50), when he notes: "Ultimately, an organization is ethical if the people inside it are ethical."

The process of managing corporate reputation is then argued by this researcher to be one with an initial primarily internal focus, prior to an external focus. This study then contends that the key objective of the corporate reputation management process is *to first ensure strategic alignment within the organisation, so that it is able to consistently and authentically act according to its stated reputation promise.* The organisation therefore first has to build and position those corporate structures and processes that will help to guide its organisational behaviour that will evoke stakeholders' trust, i.e. it first has to become trustworthy.

Once this is in place, the organisation can then extensively and uncompromisingly communicate its identity as ethical and trustworthy to all its external stakeholders, i.e. it can communicate its identity so that its stakeholders can become aware of what the *organisation sets out or promises to be.*

9.1.3 <u>Image: 'What we say and present about our organisation'</u>

The third key element in the new strategic alignment reputation management approach is the organisation's collective presentation of itself – the images and corporate communication messages it creates about the organisation. This element is equivalent to the element of 'Stakeholder images' in the *VCI Alignment model* (Hatch & Schultz, 2008:11), but is fundamentally differently defined in that it is regarded as the mental associations that the organisation wants its stakeholders to hold; as the "… internal collective state of mind that underlies [the organisation's] corporate communications efforts (successful or not) to present itself to others" (Barnett *et al*., 2006:29; Walsh *et al*., 2009:189), rather than the images that stakeholders have of the organisation as is held in the *VCI Alignment model*.

Image is then defined in this study as *the 'ideal picture' that the organisation presents to its stakeholders, what it wants them to see as being 'most central, enduring and distinctive' about the organisation, through its communication and reputation-building activities* (Barnett *et al*., 2006:29).

It needs to be highlighted that the 'ideal picture' should be authentically based on the organisation's strategic vision of who it sets out to be, which forms the foundation of the reputation promise that the organisation makes to its stakeholders. By communicating that which it wants to be, the organisation provides its stakeholders with the basis against which they can judge the organisation's actions, words and self-presentation in order to determine if the organisation is authentic and seen to be trustworthy.

The focus here is on transparent, honest and clear corporate communication messages and the use of symbolism that is aligned with the 'ideal' vision and character the organisation promises to its stakeholders. This should not be confused with the type of image-building activity where unrealistic and unsubstantiated claims about the organisation are made in order to try to impress stakeholders, by presenting the organisation as something that it is not. The focus here is on uncompromisingly communicating what the organisation wants to achieve and be in everything it does, says and presents about itself.

While the fact is acknowledged that the consistent and trustworthy behaviour of the organisation, rather than only what it communicates (Murray & White, 2005:350), will build a corporate reputation that will earn stakeholders' trust, it is also held that a for-profit organisation that wants to develop and sustain an ethical and trustworthy relationship with its stakeholders can and *should* use effective internal and external stakeholder communication (Paine, 1994:113), to make its stakeholders aware of what it is trying to achieve.

Internal communication is required so that employees know how they are expected to behave while fulfilling their duties, in order not to violate the character of the organisation. Jones (2007:182) holds that a for-profit organisation's ability "… to motivate employees and increase organizational effectiveness is directly related to the way in which members learn the organizational values", which they learn from the "… organization's formal socialization practices, stories, ceremonies, and organizational language".

External communication is required so that stakeholders can get to know and identify with the organisation, with its identity. This will lead to their trusting the organisation, and on the basis of that they will be willing to stay in a relationship with and support the organisation, which in turn ensures the for-profit organisation's sustainable economic success (King, 2009:100; Murray & White, 2005:350; Vanneste *et al*. 2011:23).

Fombrun and Van Riel (2004:134) observe that the best regarded companies are those who base all their corporate communication messages in a core reputation platform, or on what is referred to by this researcher as its reputation promise. According to Paine (1994:113), the guiding values and commitments – the reputation promise – should make sense and be clearly communicated, since they "… reflect the organisation's obligations and widely shared aspirations that appeal to the organisation's members", and it is held in this study, to all the stakeholders of the organisation.

Moss Kanter (2011:72) maintains: "Well-understood values and principles can be a source of emotional appeal, which can increase employee engagement." This is not just applicable to the employees of the organisation, but also to its external stakeholders. As such, the leaders also need to formulate, articulate and communicate an appealing reputation promise to its stakeholders (Murray & White, 2005:350) and that could assist the leadership in conceptualising and articulating their desired sustainability outcomes and overall direction clearly (Jamali, 2006:817).

However, as stated earlier, the leadership needs to ensure that all the organisational elements are in place for the organisation to actually become trustworthy in fulfilling its role of responsible corporate citizen, prior to embarking on any major external communication and image-building campaigns (Nooteboom, 2002:75; Nooteboom, 2006:249). Part of this process will include the identification of all the stakeholder groups of the organisation, and the implementation of effective two-way communication and relationship-building activities with these stakeholders (Gao & Zhang, 2006:726).

It should be noted that the intent here is not for the organisation to merely communicate the ideal reputation *to* its stakeholders, but to solicit their views and input into articulating its reputation promise, as well as the gaps in existing performance and behaviour, in order to address the needs and expectations of the stakeholders, and so improve its overall performance, accountability and sustainability as a trustworthy, responsible corporate citizen (Gao & Zhang, 2006:726).

Involving key stakeholders in the articulation of the organisation's reputation promise, which is in fact the promise that the organisation makes to its stakeholders, as well as in defining the terms of engagement (Gao & Zhang, 2006:726; Swift, 2001:23), is regarded as the ideal starting point for establishing a relationship with them, one that is characterised by open, two-way communication and allows stakeholders to "… co-create shared realities and values" (Gao & Zhang, 2006:729).

Once stakeholder input has been incorporated into the reputation promise, the leadership of the for-profit organisation then needs to ensure that the organisation's operations, decisions and actions, but also its symbolic representations and communication with its stakeholders, are consistently aligned and coherent with what it 'promises' its stakeholders to do (Einwiller & Will, 2002:100; Fombrun & Foss, 2004:286; Helm, 2007:251).

This means that the for-profit organisation's communication messages should clearly and unambiguously strive to represent and signify the organisation's identity as authentically as possible, rather than trying to manipulate stakeholders' impressions and views of the organisation, which in itself is not sustainable (Fombrun & Van Riel, 2004:177).

9.1.4 Corporate identity: 'Who we really are'

The concept of corporate identity is not regarded as an element, but as the sum total of the interaction of all three reputation elements discussed above, namely reputation promise, culture and image; where the three key elements are presented as parts of a puzzle that together make a whole and collectively constitute and present the underlying core or basic character, the actual identity, of an organisation (Barnett *et al*., 2006:33).

This symbolises that the strength of an organisation's core identity is determined by the level of strategic alignment between what the organisation wants to accomplish in future (reputation promise), how it behaves (culture) and how it presents itself (image) to its stakeholders (Hatch & Schultz, 2008:11).

The strategic alignment of these elements results in the 'real' corporate identity of the organisation. This is the one that stakeholders will use as a basis for forming an opinion and making their assessment of the organisation, resulting in the organisation's corporate reputation. While the term 'Corporate identity' is preferred in this study, its meaning is similar to the term 'Organisational identity' in the centre of the *VCI Alignment model* (Hatch & Schultz, 2008:11).

This is in line with Hatch and Schultz's view (2008:150) that the success of a corporate branding effort is determined by "… the *alignment* of vision, culture, and images … not the elements themselves". However, the difference between the *VCI Alignment model* and the new *Strategic Alignment Reputation Framework* approach being proposed by this researcher lies in the elements that need to be aligned.

In the *VCI Alignment model*, it is held that the relational gaps between internal and external stakeholders' images or opinions of the organisation need to be aligned. In contrast, this researcher uses her new *Strategic Alignment Reputation Framework* to propose that stakeholders' perceptions and assessments are based on the overall outcome of the organisation's reputation management process and that it lies outside the organisation's control.

This is why it is argued that by strategically aligning the three reputation elements that are *within an organisation's direct control* (reputation promise, culture and image as self-presentation), the organisation increases the likelihood that it expresses and presents itself authentically and makes itself uniquely identifiable and distinguishable from other organisations, thus providing its stakeholders with a basis to come to know and identify with it, resulting in their trust and continued supportive behaviour.

This study therefore posits that a strong, enduring reputation can only be developed when the for-profit organisation consistently delivers on its ethical, value-based reputation promise, and this in turn is dependent on how well and consistently its behaviour (culture) and self-presentation (image) are aligned with its reputation promise (Chun, 2005:105; Cooren *et al*. 2011:1152; Davies *et al*., 2010:532).

Reputation management then means primarily managing the organisation's identity (internal focus), in order to guide and influence stakeholders' opinions and assessments of the organisation and earn their trust, instead of trying to manage different reputations and the perceptions of its multiple stakeholders. This also implies that the organisation only needs to have one single measure to determine how well it is managing its corporate reputation, namely feedback from its stakeholders on their perceptions of how well it is managing its own identity; basically, on how trustworthy it is perceived to be.

10 ESTABLISHING A SUSTAINABLE CORPORATE REPUTATION

The process of establishing and managing a sustainable corporate reputation is then regarded by this researcher to refer to the overall activity in an organisation of managing its own identity; of managing its own relationship with its stakeholders in order to deliver on its accountability to them, instead of trying to manage different stakeholder relationships. As such, the concepts of a single corporate identity and corporate reputation are supported, and the idea of managing a single relationship versus managing multiple stakeholder relationships is proposed.

The process of managing corporate reputation is then argued by this researcher to be one with an initial primarily internal focus, prior to an external focus. This study then contends that the key objective of the corporate reputation management process is first to ensure strategic alignment within the organisation, so that it is able to consistently and authentically act according to its stated reputation promise. The organisation first has to build and position those structures and processes that will help to guide organisational behaviour that will evoke stakeholders' trust, i.e. it first has to become trustworthy.

Once this is in place it can then extensively and uncompromisingly communicate its identity as ethical and trustworthy to all its external stakeholders, i.e. it can communicate its identity so that its stakeholders become aware of what the organisation sets out or promises to be. Stakeholders can then use this as the basis against which they judge the organisation's actions, words and self-presentation in order to determine if the organisation is authentic and seen to be trustworthy. This will enable the organisation to build and maintain its desired corporate reputation, so that its stakeholders will trust the organisation to fulfil their expectations consistently in a trustworthy, transparent and responsible manner (Davies *et al*., 2010:532).

It is held that this becomes possible when there is strategic alignment between that which the for-profit organisation sets out to be (captured in its reputation promise as its leaders' strategic vision of its character and key purpose); its actual behaviour (culture); and everything that it says or displays about itself via its corporate communication, advertising, use of symbols and reputation-building activities, which all contribute to its collective presentation of itself (image) (adapted from Hatch & Schultz, 2008:67).

The reputation promise, culture and image/self-presentation of a for-profit organisation, which collectively result in its identity or character, can then be seen as the key elements of corporate reputation, in that the relationships between these have to be managed to ensure alignment, since any gaps between them are not merely undesirable, but also distract from and destroy the desired corporate reputation (Davies *et al*., 2010:532). When experience differs from expectation, reputation is damaged. "The literature suggests that any misalignment or gap between image, identity or desired identity affects a firm's reputation." (Chun, 2005:95).

Stakeholders get to know the identity of the organisation (Blois, 1999:209) through what they experience, see, read or hear about the organisation, on the basis of which they form perceptions and make assessments of the organisation, which in turn – particularly in the case where there is congruence in values (Pirson & Malhotra, 2008:10) – will inform their decisions to identify with and trust the organisation.

An organisation can sustain its good corporate reputation by building strong and supportive relationships with all its stakeholders (Fombrun, 1996:10), but this study contends that the only way in which it can achieve a strong and sustainable corporate reputation is to manage the business with an unwavering leadership commitment to ensure strategic alignment between all organisational behaviour, communication and the desired corporate reputation, to build an enduring reputation from within (see Figure 8) and actually become an ethical, trustworthy organisation.

King lll regards the members of the Board as the ultimate custodians of its organisation's reputation and stakeholder relationships, and maintains that the leadership should discuss this as a regular boardroom agenda item (King, 2009:100). It is inferred that leadership attention is required to ensure the consistent alignment of the organisation's actions and communication with the reputation promise it has made to its stakeholders, and to consider and act on the feedback they receive from their stakeholders in this regard.

As such, it is regarded as critical for an organisation to measure its stakeholders' perceptions regarding the gaps between its ideal and actual performance in terms of its reputation promise, to enable it to identify and manage the gaps in order to strengthen its reputation and ultimately the level of trust of its stakeholders. The organisation should include its performance in this regard in its integrated report to its stakeholders.

The last element posited here in relation to building a strong corporate reputation has to do with the way in which the organisation deals with the feedback it receives from its stakeholders. It is believed that the organisation should be prepared to listen and act on the feedback received from its stakeholders (Gao & Zhang, 2006:731), to take the feedback from its stakeholders literally to heart, "… to the very heart and core of the company's business activities" (Fombrun & Van Riel, 2004:176).

Since a reputation is based on stakeholders' perceptions of the organisation, the organisation that wants to build a strong reputation will consistently solicit feedback from its internal and external stakeholders and act on the input it receives, improving its performance to close the gaps between its reputation promise, culture and the images that it portrays – in other words, to strengthen its own authentic identity. This ties in with what is believed to be a key requirement to move a for-profit organisation towards a culture of corporate sustainability and trustworthiness.

In their discussion of an organisation as an open and living system, Littlejohn and Foss (2005:241) note that organisations, like organisms, never remain static, but rather "… they adjust, change, and grow on the basis of information, feedback and logical force". Hosmer (1995:387), in citing Friedland, notes that "… trust is most typically promoted when a party to an interaction shows a genuine responsiveness to the needs of its partner". That is why the more critical element for fostering and building trust and a good corporate reputation is the fact that the organisation itself should be willing and ready to change based on the feedback received from its stakeholders.

As the inclusivity of stakeholders is essential to achieving corporate sustainability, it is then imperative that their legitimate interests and expectations need to be taken into account by the organisation (Gao & Zhang, 2006:730). Being *genuinely* responsive to its stakeholders sets the stage for the organisation to foster and build trust and a sustainable relationship with its stakeholders (Hosmer, 1995:387).

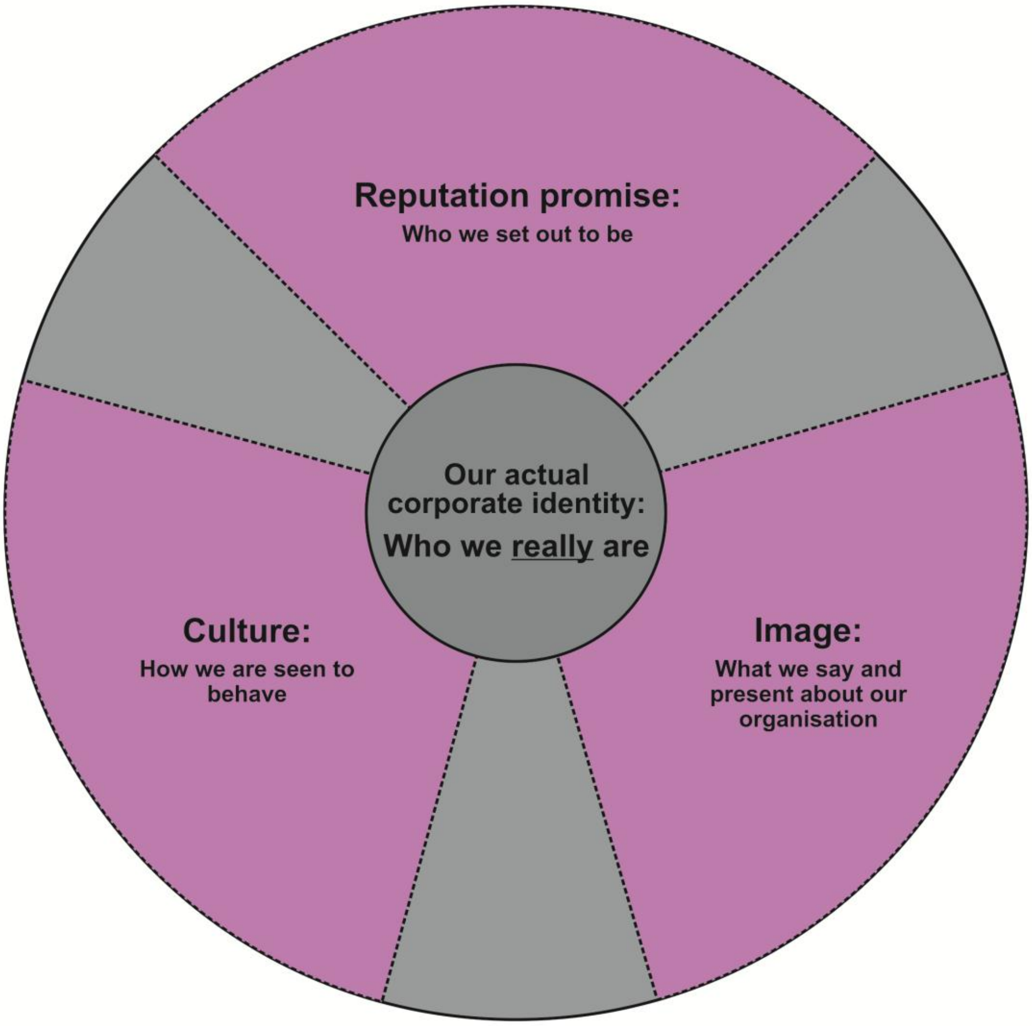
Basically it is held that the leadership should measure the perceptions its stakeholders have about the organisation (Sigma Project, 1999:58) to enable them to manage any gaps or weaknesses in its identity (see Figure 8), as identified by its stakeholders. By soliciting their input on how authentic and trustworthy it is in terms of its promise, behaviour and communication; by addressing the key issues raised by its stakeholders in a consistent and trustworthy manner; and by acting on the stakeholders' feedback, the organisation then ensures that it can "… enhance or protect [its] corporate reputation and … avoid damage or destruction by company actions" (King, 2009:100).

By using the input and responding to the feedback from its stakeholders, a for-profit organisation will be able to establish a corporate identity, culture and business operation practices that are consistent with the concept of corporate sustainability as set out in this study; it will build and maintain an authentic relationship with its stakeholders who can identify with and therefore will support the for-profit organisation; and as such it will be able to improve its overall performance and accountability (Gao & Zhang, 2006:726; Jamali, 2006:815; King, 2009:104; Swift, 2001:21).

This study contends that it is to the longer-term economic benefit of a for-profit organisation to create and maintain the conditions under which its stakeholders would be willing and would remain willing to trust the organisation, and take the risk of for example buying a product from, investing in, or publicly declaring support for the organisation.

With this, the intricate relationship between trust and trustworthiness is reiterated, and it is emphasised that stakeholders will only develop trust in the organisation when they consistently experience ethical and trustworthy behaviour on its part, which means that their belief that the organisation will continue to do exactly what it has contracted or promised to do is strengthened.

Figure 8: Towards a new *Strategic Alignment Reputation Framework*
(Adapted from Hatch and Schultz, 2008:11)



- ***Integrated and outcome reporting***

While integrated reporting is not included in the steps that an organisation needs to take to establish an enduring and sustainable corporate reputation as a trustworthy and ethical organisation that will lead to stakeholders' trust and support, it is deemed as relevant to the overall process. In this light, a brief overview will now be provided of the importance of integrated and outcome reporting.

King lll (2009:12) highlights the need for integrated as opposed to only financial reporting, because strategy, risk, performance and sustainability have become inseparable. Since a financial report only provides a view of the organisation's financial position at a moment in time, of its market value, its stakeholders cannot make an informed assessment of the holistic performance and forward-looking prospects of the organisation and therefore they are not able to assess the greater economic value of the organisation (King, 2009:13).

In order to be able to ascertain the more substantial economic value of a for-profit organisation, stakeholders will need information about what is more commonly (but incorrectly) referred to as the 'non-financial' information about an organisation (King, 2009:109). This information will for example include evidence of the organisation's performance in terms of the level of goodwill that the organisation enjoys, the quality of its leaders, the strength of its reputation as well as risks and sustainability aspects related to its social, environmental economic performance which can influence its future earnings (King, 2009:13).

According to King lll, there are two benefits related to issuing an integrated report: internally, it will help the organisation to evaluate its actual performance against its stated ethical framework, fundamental values and governance practices, and externally it will assist to increase the level of trust of its stakeholders in the for-profit organisation and the legitimacy of its operations (King, 2009:13).

This is why it is held that outcome-based and integrated reporting is highly relevant to the process of creating a sustainable and trustworthy for-profit organisation. It is believed that an organisation needs to determine and measure its impact on society and provide an integrated report on issues related to its performance in terms of sustainability. Based on King lll, this should include information on the key issues affecting the organisation as well as the effect the organisation's operations had on the economic, social and environmental well-being of the community, both positive and negative (King, 2009:109).

Due to the heightened interest in sustainability issues, which has translated into growing concerns about how corporate responsibility performance is measured and reported, an increasing number of codes of conduct and reporting standards are being developed globally (Jamali, 2006:810-11; King, 2009:109).

One of the prominent contributions in this regard has come from the Global Reporting Initiative (GRI), which is particularly pertinent to this study (King, 2009:109). The GRI, which is a multi-stakeholder international undertaking, has been working since its inception in 1997 on designing a common framework for reporting on the linked economic, environmental and social dimensions of sustainability.

Based on the GRI delineation, "… the economic dimension includes the reduction of operating costs through systematic management, labour productivity, expenditures on research and development and investments in training and other forms of human capital. The environmental component addresses primarily the impacts of processes, products and service on the environment, biodiversity and human health, while the social element encompasses workplace health and safety, working conditions, human rights issues and labour rights." (Jamali, 2006:811).

Jamali (2006:813), however, notes that "… while it is clear that organizations need to broaden the basis of performance evaluation from a short-term financial focus to include long-term social, environmental and economic impacts and value added, specific guidelines on how to proceed remain elusive".

Since the focus in this study is directed more towards the social dimension, it is only this dimension that has been considered for possible advancement and expansion. As such, it is posited that the concepts of corporate trust and stakeholder impact should form part of the social dimension that needs to be measured and reported on as well.

Effectively it is then held that the level of trust that stakeholders have in the organisation should also be included in the integrated report, as part of its social reporting process. Stakeholder trust in an organisation as a responsible corporate citizen, which has been measured independently and is subject to auditing, is regarded as conclusive confirmation that a for-profit organisation is acting as a trustworthy, responsible corporate citizen, in preserving its own sustainability. This is where the Corporate Trust Index (CTI) proposed by this study will fit in.

11 CONCLUSION: REPUTATION DEPENDS ON CHARACTER

In this study corporate identity is regarded as the core foundation of corporate reputation. Since corporate reputation is regarded as the assessment that stakeholders make of the organisation, it is held that the organisation is assessed in terms of how well it manages its identity – that which it defines itself to be, its inherent character, which originates from its vision and its values.

An organisation's articulation of its desired identity is regarded as its reputation promise to its stakeholders, and stakeholders can assess how well the organisation is fulfilling this promise to them, based on what they experience from the organisation's culture and actual behaviour, as well as what they hear about the organisation and learn from its use of communication, symbols and physical designs to present itself to its stakeholders.

It is held that the greater the alignment is between what the organisation promises to be and how it actually acts and what it says, the more its stakeholders will perceive and experience it to be authentic, which will result in a strong and authentic corporate reputation. This, in turn, will positively influence stakeholders' expectations about the organisation's future behaviour and on this basis of trust, they will then decide to continue to support the organisation.

However, it is also held that this commitment and support is largely dependent on who the organisation is, on the identity that it adopts and presents to its stakeholders. The organisation, as a social actor in its own right, is regarded as being capable of behaving in an intentional manner, and since it is granted its legitimacy from society, stakeholders can hold the organisation accountable for who it is and what it does; they can legitimately expect and demand congruence between social values and organisational actions.

Based on social psychological research, people categorise themselves and others into social groups, which is related to how they seek to achieve or maintain positive self-esteem. By positively differentiating the group they belong to on some valued dimension, people's individual sense of self is then defined in terms of their social identity. This has significant consequences for an organisation.

In the first place, it means that it needs to (re)define its corporate identity in terms of core values that will resonate on an emotional level with its stakeholders, to increase the likelihood that the stakeholders will identify positively with the organisation and the values it stands for.

While stakeholders' perception, cognition and evaluation of the organisation take place in the mind, there is a definite link between these processes and actual behaviour, since it is in their identification with the organisation that stakeholders' commitment to and positive support of the organisation originate. When stakeholders feel good about who the organisation is and what it does, it will make them feel good about who they are. This in turn will lead to their commitment to and supportive behaviour for the organisation. When stakeholders do not agree with what an organisation does, when they cannot identify with its 'social' identity, they will distance themselves from the organisation and withdraw their support.

In the second place, it means that the organisation needs to ensure absolute alignment between the reputation promise it makes to its stakeholders (that which it wants to be known to stand for and is willing to be held accountable for) and its actual behaviour and manner in which it presents itself to its stakeholders. Its stakeholders come to know and form an opinion of the organisation based on its collective, institutionalised presentation of its identity, which makes it at once recognisable and distinguishable from other organisations.

The key point to keep in mind with regard to the development of corporate reputation is that an organisation cannot control how its stakeholders perceive it, since it cannot control all the ways in which stakeholders experience or get to know about it. While personal experience has the biggest impact on how stakeholders experience and perceive an organisation, stakeholders can still develop impressions and make evaluations about the organisation without ever having experienced direct personal contact with it. Corporate reputation is also influenced by signals that stakeholders receive from other sources outside the organisation, when information about an organisation's behaviour in one relationship spreads to others via an information network.

This accentuates the importance of corporate communication and reputation-building activities to familiarise stakeholders with the organisation, particularly with its identity and the values it stands for, and once again it emphasises the need for alignment between words and behaviour. This is particularly important when it is taken into account that corporate communication is held in this study to actually constitute who the organisation is.

This underlines the need for an organisation to practise expressive communication with all its stakeholders, which seeks to authentically represent the organisation's identity rather than trying to manipulate stakeholders' perceptions, in order to present and establish an authentic corporate reputation.

This researcher then considers an authentic corporate reputation to be a key factor for creating trust in an organisation, and regards it to be the result of actual trustworthy behaviour and communication that is aligned with what the organisation promises and does. It is also held that in order to foster trust, the organisation's communication with its stakeholders should relate to characteristics that affect those beliefs or antecedents of trust, which include competence, benevolence, integrity, ethical behaviour, identification and transparency.

In this study identification-based trust is regarded as the strongest form of trust that will lead to sustainable supportive stakeholder behaviour. This form of trust is based on the organisation's authentic identity, with which stakeholders are familiarised through the organisation's promises, actions and words, in other words through its reputation-building and communication activities, and it refers to that stage where the stakeholders and the organisation have come to know each other so well that they can begin to identify strongly with the other party's values and needs.

It is then argued that identification-based trust will positively influence and reinforce stakeholders' assessment of the organisation as well as their expectations and trust, and therefore their behaviour. This is because when identification increases and a shared identity is developed, the strength of commitment, cooperation and loyalty also expands. Trustworthiness is therefore regarded as an attribute of corporate reputation, which in turn is regarded as an antecedent of corporate trust.

CHAPTER 6
THE METHODOLOGICAL FRAMEWORK:
ROLE OF MODELS IN THEORY CONSTRUCTION

1 INTRODUCTION

While the theoretical foundation for the conceptualisation of the corporate reputation, corporate trust and other related corporate constructs has been laid in Chapter 2, the methodological foundation for the conceptual research approach followed in this study is presented in this chapter. Existent literature suggests that conceptual research methods play a significant role in theory building, which is aimed at expanding or generalising knowledge (Greca & Moreira, 2000:2; Heemskerk, Wilson & Pavao-Zuckerman, 2003:8; Lenker & Pacquet, 2003:1; Meredith, 1995; Puth, 1981:18; Reisman, 1988:215; Van de Ven, 1989:486; Weick, 1989:516; Whetten, 1989:491).

Theory building forms an integral part of the normal cycle of research, which is aimed either at building or testing theory. This research cycle moves from description to explanation to testing with continuing iteration through this cycle. Throughout this iterative process, descriptive models are expanded into explanatory frameworks which are tested against reality until they are eventually developed into theories as research study builds upon research study (Emory, 1980:7). "The result is to validate and add confidence to previous findings, or else invalidate them and force researchers to develop more valid or more complete theories." (Meredith, 1993).

In the process of exploring the meaning of the phrase 'empirical research', Meredith (1995) observes an increasing common-sense tendency to equate empirical research to being the opposite of theoretical research, which in turn is increasingly incorrectly viewed as "… not having to do with the practical, in other words 'abstract' or perhaps even 'academic' and as such 'irrelevant'" (Meredith, 1995). While Meredith (1995) associates this tendency with the distinction that exists between basic and applied research, he emphasises that empirical research does not *only* have something to do with practice or application. Since the word 'theory' usually means a coherent group of general propositions used as principles of explanation, all research is oriented either towards generating/building or testing/proving theory, and as such all research is regarded as empirical.

Similarly, a number of scholars challenge the view of many researchers that research is comprised almost entirely of theory testing and that proactive theory building constitutes only a minor role in the process, or even more perplexingly that theory-testing research is actually theory building. Since hypotheses that are being tested, proven or disproven need to come from somewhere, there is a clear difference between theory-building and theory-testing research – the one cannot do without the other (Bacharach, 1989:512; Emory, 1980:7; Van de Ven, 1989:487; Weick, 1989:519; Whetten, 1989:491).

All the stages in the research cycle process are important. Research in a field that simply iterates between description and testing, ignoring the explanation stage, will not achieve the development of sound frameworks and theories that can create a more holistic and systematic understanding of the phenomenon being researched. Similarly, if the research iterates between description and explanation, ignoring the testing stage, there will not be sufficient opportunity to evaluate and build on earlier models, frameworks, or theories and the field will never progress, as each new explanation will take the field in a new direction. Likewise, if the research iterates between explanation and testing, ignoring the description stage, the research findings will become more and more disconnected from the real world and irrelevant to the reality of the problems facing managers (Emory, 1980:7; Meredith, 1993; Van de Ven, 1989:487; Weick, 1989:516; Whetten, 1989:491).

However, while all the stages in the research process are important, Meredith (1995) offers his personal view (with which this researcher agrees) that the most interesting research is concerned not with theory testing, but with theory building.

As this study is a conceptual study aimed at clarifying existing theory and providing a new theoretical perspective on the nature of and relationship between corporate reputation and trust as a contribution to theory building the nature and dimensions of theory, as well as the role of models in theory construction in particular, need to be discussed in preparation for the presentation of the research results in the next chapter.

2 OUTLINE OF CHAPTER CONTENT

In outlining the key methodological considerations applicable to this discussion, the difference between basic (theoretical) and applied (practical application) research is first delineated, before an overview of the meaning, functions, elements and dimensions of theory is provided.

The role and importance of theory-building research and some key characteristics of the theory-testing versus the theory-building research strategies are then discussed. This is followed with a review of three dimensions of research, namely the breadth, height and depth dimensions, and a brief overview of the four general modes of theory construction.

The role of models in theory construction is then discussed in more detail. An overview is provided of the meaning, functions, different types, benefits and limitations of models as well as the criteria for evaluating models. The different conceptual research methods, based on their levels of explanatory properties, are then reviewed.

This chapter is concluded with a summary of the role of models in theory construction. This discussion forms the foundational guideline to formulate a conceptual model of the relationship between corporate trust and corporate reputation in the next chapter.

3 KEY METHODOLOGICAL CONSIDERATIONS

3.1 BASIC VERSUS APPLIED RESEARCH

In the introduction to this chapter it was stated that all research – both theoretical and practical application research – is regarded as empirical research (Bacharach, 1989:512; Emory, 1980:7; Meredith, 1995).

Before discussing the meaning and nature of theory construction, it is prudent to make a clear distinction between these two types of research and delineate the terms to be used when reference is made to theoretical versus practical application research, since the term 'empirical' that is often used in literature to *only* refer to practical application research is held to be inaccurate. Instead, it is posited in this study that the distinction should be made using the terms basic or theoretical versus applied or practical research.

Applied or practical application research examines a specific set of circumstances and its ultimate goal is relating the results to a particular situation; in other words applied research uses the data directly for real-world application (Emory, 1980:7, 52-53; Stanovich, 2007:107). The primary goal of applied research is description – to answer the question of what (Weick, 1989:498). In applied research the focus is on practical problem-solving, which is used to guide management's decision-making and predict specific behaviour in a very specific setting (Emory, 1980:52; Stanovich, 2007:106).

Basic or theoretical research on the other hand focuses on investigating fundamental principles of a social phenomenon. The primary goal of basic or theoretical research is explanation – to answer the questions of how, when, and particularly why (Bacharach, 1989:498; Emory, 1980:7; Stanovich, 2007:107; Whetten, 1989:492).

Since theory can be defined as *a statement of relationships between units observed (variables) or approximated (constructs) in the empirical world*, basic or theoretical research focuses on explaining the relationships between the variables. With sociological system theory's emphasis on examining and explaining the relationships between an organisation and its stakeholders, the methodological choice of basic or theoretical research fits the macro-theoretical foundation of this study, and as such there is a worldview fit between the purpose of this study and the methodological choice.

While the use of the terms 'applied' and 'basic' makes the distinction between the practical application and theoretical types of research more succinct, it should be noted that practical application research is not the only research that provides practical *value*. This is in line with the view offered by Stanovich (2007:107), when he argues that "… [i]t is probably a mistake to view the basic-versus-applied distinction solely in terms of whether a study has practical applications [value], because this difference often simply boils down to a matter of time. Applied findings are of use immediately. However, there is nothing so practical as a general and accurate theory." (Stanovich, 2007:107). As such, basic as well as applied research is regarded as important and of value to the scientific process (Bacharach, 1989:512; Bromley, 2002:42; Van de Ven, 1989:486).

3.2 THE MEANING AND NATURE OF THEORY CONSTRUCTION

3.2.1 <u>The meaning of theory</u>

Theory is a complex topic. Theory is defined in this study as *a set of systematically interrelated concepts, definitions and propositions that are advanced to explain and predict phenomena* (Emory, 1980:35). Puth (1981:19) notes that even though the term 'theory' is frequently used in everyday conversation, most of the popular uses of the term are of limited use in scientific enquiry. As such, he outlines four major ways in which the term can be used within science: theory as a conceptual process, theory as explanation, theory as law and theory as summary statements.

'Theory as a conceptual process' refers to the general meaning of the term, which is used to denote any aspect of the formal conceptual and inferential processes of science, which attempt to organise and order empirical data. A second manner in which theory can be used in science is as a generalised explanatory principle, which usually consists of a statement of functional relationships among variables. In the third place, theory is used to refer to a group of logically organised laws, which is more pertinent to the more established sciences. The fourth meaning, which "… is also the most restricted one, refers merely to summary statements which give order, in an essentially descriptive manner, to the cluster of laws which have been empirically [through applied research] developed in some subject matter" (Puth, 1981:20-21).

The first and second meanings, namely theory as a formal conceptual and inferential process as well as theory as an explanatory principle regarding the relationships among the variables, apply to the usage of the term in this study. A good theory is held to be one that goes beyond merely establishing empirically observed patterns, and tries instead to explain what caused those patterns – to address the why, rather than the what (Bacharach, 1989:498; Van de Ven, 1989:486-487; Whetten, 1989:490,492).

Meredith (1993) cites five requirements for a theory, namely that it:

- allows for prediction or increased understanding;
- is interesting, that is non-trivial;
- includes attributes or variables and their interactions;
- does not include 'composite' variables or attributes that are undefined; and
- includes boundary criteria.

Any conceptual model that includes epistemic propositions or explanatory elements and which meets all five theory requirements is classified as a theory, whereas it is regarded as a framework if it meets only a few of the theory requirements (Meredith, 1993; Whetten, 1989:491).

A framework is essentially viewed as a pre-theory, which may well substitute for a theory in many ways, since it, like theory, may identify relevant variables, classify them, describe their interactions, and allow a mapping of items (such as the existent literature or research studies) on to the framework. However, a framework only consists of data, qualitative or quantitative, that merely characterises or describes the social phenomena of interest. A framework therefore only provides answers to the 'what' and 'how' questions; in that it describes the variables, constructs and concepts that are being studied, and it describes the relationship between these factors. A complete or 'good' theory on the other hand describes as well as explains – it provides an explanation for the characteristics as well as the relationships in the data (Meredith, 1993; Whetten, 1989:490-493).

3.2.2 The functions of theory

Theory tends to be both a tool and a goal. Good theory is practical because it advances knowledge in a scientific discipline; can be used as an aid to assist in directing applied research investigations; and can guide research by generating new predictions; or it can be used as something valued as an objective in its own right, in that it can integrate and order existing laws stemming from applied research (Emory, 1980:35-36; Van de Ven, 1989:486). Theory is also regarded as useful because it provides an efficient means of abstracting, codifying, summarising, integrating and storing information (Puth, 1981:21).

Fisher (1978) provides a more detailed classification of the functions of theory, namely that of heurism, justification, explanation and causation. The function of heurism refers to the expectation that theory should be able to generate hypotheses or new research ideas, whereas justification suggests that theory should be able to corroborate or confirm hypotheses. The explanation function is described as theory being used to assist in understanding phenomena that do not have discernible explanations; typically, to answer a 'why' question. This is the key function of theory applied in this study.

The last function according to Fisher (1978) is the capability of scientific theory to 'account' for – that is to explain or predict – the causal relationships among or between phenomena. While causation requires that a relationship be temporarily distinct and meet the requirements of sufficient condition for the effect to occur, it needs to be noted that social science theories, in contrast to the natural sciences, cannot consistently satisfy the criteria for causation. Social explanations are often atemporal and only employ sufficient but not necessary conditions (Puth, 1981:23). In the sense that this study has the objective of investigating and conceptualising the relationship between corporate trust and reputation, this function of theory is also applicable to some extent.

In summary, the general functions of theory (Puth, 1981:24) can be described as follows:

- A theory is a set of logically related general propositions permit the deduction or conceptualisation of certain outcomes.
- A theory provides a unifying explanatory mechanism that can be used to impose and prompt coherence on numerous, diverse behavioural outcomes.
- A theory provides a means for predicting future behavioural outcomes.

3.2.3 <u>The elements of theory construction</u>

The four essential concepts in theory construction include variables, concepts, constructs and relationships. A variable is defined as *an observable entity that is operationalised by measurement*. A concept is defined as *an abstraction of meanings or characteristics from reality associated with certain events, objects, or conditions to which some word or words are assigned in order to be able to communicate about it*.

Some examples include table, dog, hot, money, electric light and conference (Bacharach, 1989:498,500; Emory, 1980:24-26,152; Meredith, 1993; Puth, 1981:24).

A construct is defined as *an abstract form of concept that cannot be observed directly or indirectly, but can be inferred by observable events* or as an image or idea specifically invented for a given research and/or theory-building purpose. Even though there is no distinct demarcation between a concept and a construct, the latter is regarded to be more complex than a concept. By its very nature, constructs such as culture, satisfaction, motivation, intelligence, trust and reputation cannot be observed directly, and can therefore be described as specialised concepts. Constructs may then be applied on the basis of that which can be observed (i.e. its variables), and refer to the relationships among the constitutive variables of a phenomenon. A construct is then viewed as a broad mental configuration of a given phenomenon, whereas a variable may be viewed as an operational configuration derived from a construct (Bacharach, 1989:498,500; Emory, 1980:26-27; Meredith, 1993; Puth, 1981:24).

Bacharach (1989:496) describes theory as a statement of relations among concepts within a set of boundary assumptions and constraints, and notes that it is "… no more than a linguistic device used to organise a complex empirical world". A theory is then a system of constructs and variables that are related to one another. On a more abstract level constructs are related to each other by propositions while on a more concrete level hypotheses (derived from the propositions) specify the relations among variables (Bacharach, 1989:500).

In this study the constructs of corporate reputation and corporate trust and the relationship between them, also in relation to corporate identity, trustworthiness and sustainability, are conceptualised.

3.2.4 <u>The dimensions of theory</u>

The dimensions of these four key elements are determined by positioning them on a continuum, where one extreme on the left represents the everyday, non-scientific world (literature, arts, etc.) and the other extreme on the right represents the scientific world. It is held that scientific progress is marked by a progressive shift from left to right on the continuum for all the elements of theory construction (Puth, 1981:27).

The element of construct is placed on a continuum of operational specificity, with extremes of surplus meaning on the left and explicit meaning on the right; where operational specificity refers to the clarity of the stated relationship to its empirical basis. Hypothesis as an element is positioned on a continuum between 'intuitive' (left) and 'rigorous' (right), which relates to the testability of the hypothesis and the extent to which adequate empirical or observational tests can be performed. A hypothesis is defined as *an anticipatory verbal conjecture or surmise that states a relationship among variables and observation* (Puth, 1981:26).

Observation as an element, which involves the purposeful perception of the relationships among variables with a view to testing stated hypotheses, is localised on a continuum relating to the control of the variables, from everyday, ambiguous observations on the one extreme on the left to experimental control on the right, which allows for the reduction in the ambiguity with which variations in the dependent variables may be assigned to the influence of the independent variables (Puth, 1981:27).

The constructs of corporate trust, reputation, trustworthiness, identity and sustainability as conceptualised in this study are held to be positioned closer to the right on the continuum of operational specificity, since these constructs have been clearly defined and their meaning and relationships have been made explicit based on empirical data research.

3.3 ROLE AND IMPORTANCE OF THEORY-BUILDING RESEARCH

In contrast to the natural science process that is mechanistic and precise, and where validation of results is key, the social science process is often more intuitive, blind, serendipitous and creative (Weick, 1989:519). Even though a social scientist can make use of either applied or basic research strategies, the validation of the theory and results is not his key task. The contribution of social science is held to lie not in validated knowledge, "… but rather in the suggestion of relationships and connections that had previously not been suspected, relationships that change actions and perspectives" (Weick, 1989:524).

3.3.1 Role of theory-building research in social sciences

The fact that valid knowledge is difficult, if not impossible, to attain in social science, puts basic or theoretical research in a different light, and highlights both its role and importance. "Theorizing is no longer just a preliminary to the real work of verification, but instead may involve a major portion of whatever verification is possible within the social sciences." (Weick, 1989:524).

Theory building is not done in a vacuum, but is based on the practical experience of the social sciences researcher. In defence of the argument by some researchers that empirical theory-building research is 'weak', Meredith (1995) argues that it in fact requires to be conducted in a rigorous and careful fashion, based on practical experience: "Thus, good theory building [theoretical research] is based not on intuition or hearsay, but on rigorous, careful, practical experience; that is, 'empirical research'."

According to Meredith (1993:3), the repeating research cycle of description, explanation and testing in building theory does indeed include experience, and as such he holds that the description of the phenomenon of interest through that experience is certainly legitimate research, since it allows for the formation of hypotheses, frameworks, typologies or even simple taxonomies with descriptions based on experience.

Whetten (1989:492-493) also emphasises that most researchers generally work on improving an existing theory rather than generating a new one from scratch. However, he maintains that a simple addition or subtraction of factors to or from an existing model does not constitute theory. Good theory needs to substantially alter the core logic of the existing model, by for example identifying how this change affects the affected relationships between the variables. As such, it is held that the domain of theory is relationships. Therefore "… theoretical insights come from demonstrating how the addition of a new variable significantly alters our understanding of the phenomena by reorganizing our causal maps" (Whetten, 1989:493).

In this study the knowledge base that is known in the communication and reputation management field has been used and expanded. However, it is believed that the development of the conceptual model to clarify and explain the relationship between corporate reputation and corporate trust will result in a paradigm shift (Bramoullé & Saint-Paul, 2007:3). In line with Whetten's (1989:493) description of a good theory, this researcher also believes that this study's contribution to theory development will significantly alter academics' and practitioners' understanding of the relationship between corporate reputation and corporate trust, which in turn will influence how these corporate processes are managed and open up new avenues for further research.

3.3.2 Some approaches to theory building

Reisman (1988:215) also supports the contention that conceptual theory-building research is important, and as such he calls for "… more research which is unifying in nature and which would compress knowledge while significantly expanding it". In delineating a number of taxonomic approaches to classifying knowledge and in emphasising the need for yet higher order contributions, "… namely those which embed that which is known in more generalized theoretical frameworks", a number of alternative strategies for that type of research are offered. These include the ripple, embedding, bridging, transfer of technologies, creative application, structuring, and empirical validation strategies. According to Reisman (1988:219), these strategies are not mutually exclusive: "In fact, some of the better studies invoke two or more of the above approaches."

These different ways in which the expansion of knowledge can be pursued are not discussed in detail. However, a brief overview is provided of the first three, since it is believed that the approach followed in this study corresponds with the description of the embedding strategy, as well as some elements of the ripple and bridging strategies. This also provides a link for a discussion of the characteristics of the different research strategies being applied, which follows in section 3.4.

Reisman (1988:216-217) observes that the most common way in which management science research is done is the incremental approach, which he refers to as the ripple strategy, as this approach typically takes what is known for (n) dimensions and develops a model, solution, or theory for (n + 1) dimensions of the same type of problem domain. On the other hand, the embedding strategy or process applies when several known models or theories are embedded into a more generalised formulation or a more global theory.

If the incremental approach designation is used synonymously with ripple process then, correspondingly, the 'big leap forward' approach can be used for the embedding process designation. The third type of process, called the bridging strategy, involves the bridging of known models or known theories. The key difference between these three strategies and the rest as identified by Reisman, is that these – especially the embedding and bridging processes – tend to 'explode' knowledge, whereas the others are more imploding in nature (Reisman, 1988:218).

This is also in line with the distinction made in the study of scientific progress by Bramoullé and Saint-Paul (2007:3) between extensive and intensive research. These authors note that studies of technological changes have long stressed the difference between improvements of known processes and innovations leading to new products. Likewise, they argue that it seems that some scientific contributions are pioneering and open up new avenues for future research, while others mainly refine or extend previous work. Bramoullé and Saint-Paul (2007:3) hold that this distinction lies at the core of Kuhn's influential theory of scientific evolution, which holds that science alternates between periods of normal science and scientific revolutions. Under normal science progress is gradual, building up on past achievements. In contrast, scientific revolutions correspond to paradigm shifts during which scientists qualitatively change their focus and assumptions.

3.3.3 <u>Plausibility as a substitute for validation</u>

The generic selection criterion that is most often used in theoretical or basic research and acts as a substitute for validation is the judgement "… that [something] is plausible" (Weick, 1989:524). The centrality of plausibility to the theorising process rests on the past experience of the theorist, which has been 'edited' down into assumptions that the theorist makes in his research. “The assumption is a distillation of past experience. When that assumption is applied to a specific conjecture, the assumption tests the conjecture just as if an experiment had been run.” (Weick, 1989:525). The theorist’s reaction to the plausibility of his conjecture is regarded as the equivalent of a significance test, and as such it serves as a substitute for validity.

Since basic or theoretical research is driven by concerns of plausibility rather than concerns of validity, a number of selection criteria can be used to assess the judgement of plausibility, including reactions that indicate that the theorist finds that the results of his research are interesting, obvious, connected, believable, beautiful or real. Since the first selection criterion (interest) is the one that is regarded to be of most use in this study, it will be briefly discussed.

Interest as a selection criterion is very closely tied to past experience and previous tests or knowledge. According to Weick (1989:525), a reaction with the feeling *that’s interesting* is a clue that current experience has been tested against past experience, and the past understanding has been found inadequate. An assessment of interest represents “… the terminal stage of a substantial comparison between previous experience summarized into an assumption and a current experience summarized into a conjecture which questions that summary. The reaction *that’s interesting* essentially signifies that an assumption has been falsified.” (Weick, 1989:525).

This study started off questioning the general assumption that corporate trust is an antecedent of corporate reputation, as is reflected in much of the existent literature. Following the basic research, the researcher’s inference is that the relationship between these two constructs is actually an inverse relationship, and that the process has clarified the critical difference between trust and trustworthiness. This has led to disconfirming the original assumption.

3.4 RESEARCH STRATEGY CHARACTERISTICS

According to Reisman (1988:218), empirical (applied) research that is done in order to validate or test theory is, in the spectrum of research strategies, characterised as being the most labour-intensive process, as it takes much effort to design and pretest the proper data-collection instrument and extensive effort to collect, mechanise and analyse the data. Reisman notes that this kind of research is very important in providing a real-world underpinning to a theory or in reducing theory to practice. However, it is still – within the spectrum of strategies discussed earlier – the process which is most prone to inconclusive results and all that this implies. Conversely, Reisman observes, also within the spectrum of his identified strategies, that "… this type of research requires the least creativity and the least need for a breadth of vision" (Reisman, 1988:218).

On the other hand, Reisman holds that generalisation/unification empirical (basic) research of the 'big leap forward' variety is the least labour intensive, as this approach typically does not require much computerisation, if any; it does not particularly get involved with the development and testing for effectiveness or for efficiency of any algorithms; it typically requires no data collection; and validation is easily obtainable in as much as published works have served as the basis of and the stepping-stones for the generalisation.

"Therefore, the generalized framework [basic or theoretical research] should reduce to all of these known and published models or theories as special cases by a process of simplification. Although it may appear that this is circuitous-type reasoning, in fact it isn't. This strategy is the most prone to result in significant contributions within the shortest time span and the least effort but it requires the most creativity and breadth of vision." (Reisman, 1988:218-219).

With regard to the other strategies discussed earlier, Reisman points out that these fall somewhere between the two extremes discussed above. For example, bridging disciplines may require validation that the resulting theory is meaningful and/or useful, and while the levels of creativity required in this process are not as great as they are in the 'big leap forward' approach, they are still greater than what is required for the more mechanistic ways of incremental approaches. He also holds that the incremental process, or the ripple process, is probably "… one of the more difficult ways of getting a breakthrough of any significance as it typically requires an extension of a well-developed body of theory where the 'cream' has already been 'skimmed off'" (Reisman, 1988:219).

However, Reisman also maintains that while the embedding process is most prone to result in significant contributions within the shortest time span and the least effort, this strategy may result in much criticism, especially from those who are most comfortable with analysis as opposed to synthesis or design, and that 'so what?' reactions will be common.

Reisman (1988:219) observes that "… the surest way of securing a publication in today's flagship management science journals, which are basically by and for the academic community, is to follow the ripple process". Nevertheless, he warns that "… by not paying sufficient attention to the phenomenologic basis for our research we risk ... having analytic development so far ahead of empirical observation and description ... that we may not be developing the analytic tools that will be most helpful for modelling and studying actual phenomena." This comment of Reisman ties in with Weick's observation about the importance of theoretical research made earlier in this section.

3.5 DIMENSIONS OF RESEARCH

In briefly outlining the different dimensions of research, Puth (1981:31-35) notes Van Leent's (1965) systematisation of social psychology and the proposition that research in this field manifests in three dimensions, namely breadth, height and depth.

3.5.1 <u>The breadth dimension of research</u>

Research on this dimension is generally directed at the 'natural' occurrence of phenomena, at social problems as they are manifested in everyday life. Survey research, where the focus is on an accurate representation of phenomena and the relationship between these phenomena in society, is the most general type of research conducted on this dimension. In this instance, the key requirements of the research being done include operational accountability, standardisation of observations, reliability and randomness of sampling.

Puth (1981:32) observes that research on this dimension provides invaluable groundwork preceding and initiating more sophisticated research. However, Puth

(1981:32) also highlights that researchers operating on this dimension unfortunately do not always adhere to the requirements of embedding their research in relevant theory, which leads to "… a mere verbalising of tabulated data".

3.5.2 <u>The height dimension of research</u>

Research on the height dimension is generally primarily and explicitly directed at theory construction, in contrast to providing solutions to social problems, and it is noticeably concerned with causation rather than explanation. Experimental research is the most general type of research conducted on this dimension. The foremost concern of experimental research designs is the requirement of internal validity, which requires the isolation of dependent and independent variables as well as the control of all other variables, in order to be able to prove that the researcher has measured what he set out to measure.

Puth (1981:33) notes that the most preferred approach to theory construction on this dimension is a hypothetical-deductive approach, "… where a theory is constructed from a limited number of constructs by way of systematic testing of a series of hypotheses". Puth (1981:33) also holds that research conducted on this dimension will contribute to or establish theories of the middle range.

3.5.3 <u>The depth dimension of research</u>

Research on the depth dimension differs fundamentally from the other two dimensions. Where the breadth and height dimensions are aimed at identifying and describing the variables of a phenomenon, and at deductively constructing an applicable theory through experimentation, neither of these two dimensions is instrumental in describing the depth of the phenomenon.

According to Puth (1981:33), the key question to be resolved on this dimension is: "What are the fundamental and universal properties of the phenomenon being studied? After the constitutive variables have been identified and the relationships between them described, what can be said of the phenomenon in its totality?" Since these questions

"… are indicative of the difficulty to precisely describe the methods of research on the depth dimension", most scientists operating on this dimension find it difficult to account for the process and method of their work. Research on the depth dimension is then characterised by the utilisation of intuition and introspection based on a wide understanding of the empirical context of the phenomenon and by the use of descriptive examples (Puth, 1981:33-34).

Puth (1981:34) observes that researchers with a preference for this dimension "… generally seem to demonstrate a dissociation from the (natural) scientific approach of causation, a scepticism about the value of experimental methods and a rejection of statistical means as the only way to valid and reliable results". Puth (1981:34) also asserts that there is an intimate relationship between theory and research on the depth dimension "… even to the extent that it is sometimes difficult to distinguish between the two components".

As a conceptual study aimed at conceptualising the corporate reputation and trust constructs (and the related constructs) as well as the relationship between these two constructs, in order to provide a more holistic conceptualisation and understanding of these constructs and how these processes can effectively be managed in an organisation, this study is firmly positioned on the depth research dimension.

3.6 MODES OF THEORY CONSTRUCTION

Theory construction can be described as the concurrent development of concepts, propositions that state a relationship between at least two properties, and contingent propositions whose truth or falsity can be determined by experience. This implies that one cannot equate theory with the mere development of conceptual definitions (Weick, 1989:517), but that the theory that is being constructed should be designed to highlight relationships, connections and interdependencies in the phenomenon of interest (Bacharach, 1989:500; Van de Ven, 1989:486; Whetten, 1989:492).

Theory construction can be described as a sense-making process, since a theory tries to make sense of the observable world by ordering the relationships among elements that constitute the theorist's focus of attention in the real world (Bacharach, 1989:496; Weick, 1989:519; Whetten, 1989:491). According to Weick (1989:519), the problem of sense-making for theorists occurs precisely because the correspondence between concepts and observables is so loose; the system being studied is open rather than closed; and the dissemination of earlier sense-making alters the relationships that theorists are trying to order.

There are numerous ways in which to develop theory. In order to describe how best to develop sound theory, the framework developed by Marx (1963) is used as a guideline to describe four general modes of theory construction, namely model, deductive, functional and inductive. These will be briefly discussed, before the role of conceptual research, and the role of models in particular, is discussed.

3.6.1 <u>Model development construction</u>

There are a number of ways in which a model can be defined, a few of which will be discussed in section 4.3, when the different types of models are discussed. For the purpose of this discussion of conceptual models as one of the forms of theory construction, it is important to highlight that the purpose of a conceptual model is defined in this study to be *a representation of the relationships between or among concepts, based on a conceptual scheme* (Bacharach, 1989:500; Emory, 1980:38; Van de Ven, 1989:486; Weick, 1989:517; Whetten, 1989:492).

According to Puth (1981:35), a model, described as a conceptual analogue, is used to suggest basic empirical (theoretical) research, where the flow of influence is from the conceptual to the data (applied) level.

A model then structures current knowledge, offers a perspective for examining new problems and facilitates the integration of new parameters and relationships as a field evolves. Lenker and Paquet (2003:2), in citing Edyburn, provide a succinct description of a model's function: Models help practitioners and researchers to understand key variables, relationships and systems, which then stimulate advancements in theory, research and development, policy and practice. These authors then argue that models provide a sound basis for advancing professional practices and scientific knowledge.

This form of theory construction refers to the process where theory is built on the depth dimension, in other words to basic research, and presented to the field for testing. A model is then used on the basis of its own heuristic value, and most of the applied research derived from the model is conducted by researchers other than the one who formulated the model. This form of theory construction is used in this study.

3.6.2 Inductive theory construction

Inductive theory construction refers to a process where a conclusion is arrived at based on the available evidence plus an inference that is drawn from this evidence. The reasons (or evidence) are alleged to be factual, and the conclusion explains them. “Inductive conclusions are tentative inferential jumps beyond the evidence presented. That is, the conclusion is suggested by the evidence plus some other insight that occurs to us.” (Emory, 1980:38).

Puth (1981:37) observes that inductive theory essentially consists of summary statements of empirical (applied) relationships and contains a minimum of inferential commitment and deductive logic. He describes this form of theory construction as positivistic (i.e. the theory that knowledge can be acquired only through direct observation and experimentation and not through metaphysics or principles), in that it leads to the progressive development of theory.

3.6.3 Deductive theory construction

Deduction is also a form of an inference process, but here the conclusion is suggested only by the evidence (or reasons) given and as such it purports to be conclusive. The conclusion must then necessarily follow the evidence. The reasons provided are then said to imply the conclusion and represent a proof. Deductive theory construction aims at arriving at a conclusion that is both true and valid (Emory, 1980:38). This form of theory construction refers to the process where a researcher uses the data from applied research, and then modifies the underlying theory based on deductions made from the data.

3.6.4 Functional theory construction

This term is used to refer to the utilisation of organised conceptualisations, with more explicit emphasis on the provisional and tool character of the theory (Puth, 1981:37). With this form of theory construction, the interaction between basic and applied research is two-way. “This kind of theory encourages the most intimate and continuing interaction of data and conceptualisation. Both kinds of activity, empirical [applied] and conceptual [basic], are emphasised and they are given equal status.” (Puth, 1981:37).

In conclusion, Puth (1981:37) highlights that while these four modes are “… salient types of theory construction procedures, not all actual theoretical endeavours would in practice conform exactly to these modes”.

4 THE ROLE OF MODELS IN THEORY CONSTRUCTION

4.1 THE MEANING OF MODEL

A conceptual model is a simplified, logical, systematic and clear representation of reality; of real objects, phenomena or situations, which are made explicit in some abstract form. A conceptual model, depicted in words and/or charts and/or diagrams, is then intended to help build mental models of the system being studied (Greca & Moreira, 2000:2; Heemskerk *et al*., 2003:8; Mayer, 1989:43; Meredith, 1993; Puth, 1981:47-48, Turban & Meredith, 1981:20-21).

A key benefit of a conceptual model, in contrast to computer simulation or empirical models, is that it requires few resources and little prior modelling experience. Conceptual or qualitative models are typically drawn as diagrams with boxes and arrows that show the main elements and flows of material, information and causation that define a system (Heemskerk *et al*., 2003; Whetten, 1989:491). Mortensen (1972) describes the key function of a conceptual model as being designed to make abstract experience concrete and meaningful to others.

According to Greca and Moreira (2000:2,5), modelling, understood as the establishment of semantic relations between theory and phenomena or objects, is the fundamental activity in the sciences. They distinguish between mental and conceptual models. Mental models are internal, personal, idiosyncratic, incomplete, unstable and essentially functional. In contrast, a conceptual model is described as a precise and complete representation that is coherent with scientifically accepted knowledge, and as an external representation specially created by researchers to facilitate comprehension of the system being studied.

A conceptual model, one with explanatory power, then highlights the major objects and actions in a system as well as the causal relations among them (Mayer, 1989:43; Whetten, 1989:491). As such, a conceptual model can be thought of as a special kind of comparative advance organiser or a special kind of text illustration, "… that is, as an organizer or illustration that shows how the parts and operations of a system fit together" (Mayer, 1989:61). Johnson and Henderson (2002:26) also describe a conceptual model as a high-level description of how a system is organised and operates, and they hold that as such it specifies and describes inter alia the major metaphors and analogies employed in the system, if any; the concepts of the system and the relationships between these concepts.

A conceptual model is thus a set of concepts, with or without propositions, used to represent or describe (but not necessarily explain) an event, object or process. Meredith (1993) emphasises that although any propositions identified in a conceptual model are merely logical statements rather than epistemological relationships, conceptual modelling is still more an interpretative than a formally rational research method: "... a mental model of the suspected relationships is posited, which may then be evaluated by means of a framework that captures the essence of the system under investigation".

According to Heemskerk *et al*. (2003:8), model building consists of determining system parts, choosing the relationships of interest between these parts, specifying the mechanisms by which the parts interact, identifying missing information and exploring the behaviour of the model. "The model building process can be as enlightening as the model itself, because it reveals what we know and what we don't know about the connections and causalities in the systems under study." In the light of this, modelling can both suggest fruitful paths of study and help pursue those paths.

4.2 THE FUNCTIONS OF MODELS

The general objective in designing conceptual models is to construct a model that most accurately and usefully shows what is fundamental to the phenomenon it represents (Puth, 1981:48). Models are then useful to explore systems and processes that cannot directly be manipulated. The representation of systems or problems through models can be done at various degrees of abstraction (Turban & Meredith, 1981:21). Models can be more or less quantitative, deterministic, abstract and empirical. They help define questions and concepts more precisely, generate hypotheses, assist in testing these hypotheses and generate predictions (Heemskerk *et al*., 2003:8).

4.2.1 <u>Models provide a frame of reference for scientific enquiry</u>

The first function of a model within the context of any discipline is to provide a coherent frame of reference for scientific enquiry. Models are necessary to formalise a discipline and indicate its distinctive and characteristic boundaries (Puth, 1981:50). As such a model should provide both general perspective and particular vantage points from which to ask questions and interpret empirical observations.

4.2.2 <u>Models clarify the structure of complex phenomena</u>

The second general function of models is that they clarify the structure of complex events or phenomena, by reducing complexity to simpler, more familiar terms. This is held to be particularly important when dealing with a system or activity encompassing a vast and seemingly countless number of influences (Puth, 1981:51). A model, as a simplified and systematic representation of reality, fosters systematic thinking and enhances understanding (Mayer, 1989:57).

As Johnson and Henderson (2002:26-27) put it, a well-designed and refined conceptual model of a system will help the users of the model to more quickly 'figure it out'. Since a conceptual model is much smaller and simpler than the actual system, it is something that can be held in mind and worked on (Johnson & Henderson, 2002:32). Models can then reveal what to look for, how to identify levels of analysis, and how to separate the idiosyncratic from the common (Puth, 1981:51).

However, Mortensen (1972) cautions that the aim of a model is not to ignore complexity or to explain it away, but rather to give it order and coherence. Puth also notes that "… [b]y looking for the underlying structure of a phenomenon, the model builder decreases the danger of becoming side-tracked by irrelevant particulars. With the aid of a high-powered model, isolated pieces of information can assume meaningful patterns… In short, a useful model is a starting point for moving from description to explanation to prediction." (Puth, 1981:51).

4.2.3 <u>Models provide new ways to conceive ideas and relationships</u>

A third general function of a model is its heuristic nature, in that it provides new ways to conceive hypothetical ideas and relationships. Mortensen (1972) notes that this may well be regarded as the most important function of models, in that a good model lifts the researcher above the conventional modes of thought, enabling the researcher to study a phenomenon by transcending its immediate confines.

This is possible, since the initial context is transferred to a new perspective on the same phenomenon as the particular attributes of a phenomenon are adapted to more idealised modes of representation. "Ideally, any model, even when studied casually, should offer new insights and culminate in heuristic experiences." (Puth, 1981:52).

4.2.4 <u>Specific functions related to theory construction</u>

While the functions described above can be regarded as general functions in any discipline, Hawes (1975) identifies those functions that are specifically related to the process of theory construction, namely a descriptive, explicative and simulative function.

Although the descriptive function is the most conservative function of modelling since its range of generalisability is narrow and its assumptions are restrictively simplistic, it is regarded as fundamental to all models. This is because a model can be constructed to describe a particular phenomenon of which either no theory exists or the existing theory is inadequate. “In such an instance the purpose of the model is to describe the subject of study with more precision and specificness by using a model to represent the underlying structure of the phenomenon.” (Puth, 1981:52).

The explicative function applies when the objective is to explicate one important but poorly developed concept in an existing theory. “In this instance the purpose of modelling is not to describe and thereby make the phenomenon more amenable to theoretical explanation. Rather, it is to define more rigorously a concept central to relatively well-developed theory, thereby rendering that theory more testable.” (Puth, 1981:53).

Both the descriptive and explicative functions of models usually represent structural relations among concepts of a theory, whereas the simulative function represents functional or process relations among concepts. Hawes (1975) notes that not all models serve a simulative function, just as not all models serve a descriptive or explicative function. He observes that the decision whether to build a model to describe a phenomenon, explicate a concept or simulate a process, depends upon what immediate steps need to be taken to further develop the specific theory.

It is posited that both the explicative and simulative functions apply to the conceptual model that is developed in this study to explain the relationship between corporate trust and corporate reputation. The explicative function is applicable since the constructs of trust and trustworthiness, in relation to corporate reputation, are more precisely defined, and the functional or process relationships between these constructs are simulated.

It is believed that this model will make a meaningful contribution to the field, in that it will assist in clarifying this aspect in the theory, thereby enabling the more effective management and measurement of corporate trust and reputation.

4.3 THE DIFFERENT TYPES OF MODELS

There are a number of classifications as far as the description of different types of models is concerned. According to Turban and Meredith (1981:21), models describe, reflect or replicate a real event, object or process, but not all models necessarily explain the event, object or process that they represent. These authors identify three major types of models, each with increasing degrees of abstraction. Iconic models, which are the least abstract and most basic, are physical replicas of a system or situation. As such, they have no explanatory power. This type of model is usually on a different scale from the original, such as a scale model of a bridge, building, photograph or Tinker-toy version of a molecule.

An analogue model, which presents the next level of abstraction, is also a physical model, but its shape differs from that of the original system. This type of model does not physically look like the original system, but it behaves like the relevant portion of it. These are usually two-dimensional charts or diagrams, such as an organisation chart, a colour map, the blueprints of a house, an oil dip-stick or an hour-glass. Mathematical models are the most abstract. Since the complexity of relationships in some systems cannot be represented physically, symbols are used to represent the relationships. These symbolic models allow the greatest manipulation for purposes of experimentation, prediction and analysis, such as Boolean logic statements, stochastic simulations or mathematical equations (Turban & Meredith, 1981:21).

Greca and Moreira (2000:5) distinguish between different types of models, when they note that conceptual models as external representations can materialise as material artifacts, analogies or mathematical formulations. “An artifact that indicates the functioning of a water pump, an analogy between Rutherford’s atom and the solar system, or the mathematical formulations of the shell model for nuclear physics are examples of conceptual models.”

Cappella (1977:38) makes use of a differential logics approach, and distinguishes between models based on verbal logics, pictorial logics, mathematical logics and algorithmic logics. However, Puth’s discussion of the classification of scale models, conceptual models and mathematical models is regarded as more applicable in the context of this study, and as such these models will be briefly discussed.

4.3.1 Scale models

There are two distinct attributes that identifies a scale model, namely that it represents similarities among objects or processes with a physical substance, and that it retains the relative proportions and salient features of the object being modelled (Puth, 1981:58).

This is similar to the term ‘iconic model’ used by Meredith (1993) and the term ‘material artifacts’ used by Greca and Moreira (2000:5). As the social sciences are less concerned than the natural sciences with physical objects and processes, the importance for theory development in the social sciences is minimal (Puth, 1981:59).

4.3.2 Conceptual models

Whereas scale models usually involve no substantive change in medium, conceptual models are characterised by a change in medium. Rather than representing the outward appearances of the phenomenon being studied, conceptual models represent as accurately as possible the internal structure or network of relationships in the original object or process. This type of model then has an explanatory or explicative function (Emory, 1980:38; Mayer, 1989:44; Puth, 1981:53).

Puth (1981:59) highlights an important implication, namely that the same conceptual model can be used to represent similar processes or structures in different contexts. “A model of small group communication can, for example, represent an informal friendship circle, or a committee meeting or a panel discussion. But a model aircraft can only be a model of an aircraft.”

Rules of correspondence apply to both symbolic and conceptual models, but where scale models are judged by their external or physical similarity to the object, conceptual models are assessed by their degree of internal or structural similarity to the object or process they represent. This means that where a scale model is the least abstract, a conceptual model is more abstract, that is further removed from the physical world. "In fact, typically a conceptual model represents a conceptual similarity amidst physical dissimilarities." (Puth, 1981:59).

4.3.3 Mathematical models

One of the differences between a conceptual and a mathematical model lies in its construction process. In the case of the former, another object or process, supposedly sharing a common structure, is used as an analogue. However, in constructing a mathematical model, an equation or set of equations is the analogue.

Another difference lies in the level of accuracy and precision. "The advantages of constructing mathematical models for social processes lie in the resulting precision with which testable relations can be formulated and tested, the ease of deducting hypotheses by using mathematical transformations, and the clarity of structures revealed by the model." (Puth, 1981:60). The main disadvantage, on the other hand, is the need for drastic simplifications to be made in the object being modelled before it can be expressed as an equation or a set of equations, which sometimes requires for very stringent assumptions to be made to make the simplification possible.

4.4 THE LIMITATIONS OF AND MISCONCEPTIONS REGARDING MODELS

4.4.1 Oversimplification

Oversimplification can be regarded as the most general limitation of models. While the aim of science is always to simplify, to only formulate what is essential for understanding, prediction and control, care needs to be taken to find the line separating simplification and oversimplification. The fact that a model is simpler than the subject matter that is being explored, "… is as much a virtue as a fault, and is, in any case, inevitable" (Puth, 1981:54).

A model that ignores crucial variables and recurrent relationships is open to the charge of oversimplification, whereas a model that includes essential attributes or particulars of the phenomenon can be credited with the virtue of parsimony. While the key objective of a model is to simplify, care should be taken not to oversimplify.

4.4.2 Confusion with reality

A model is frequently confused with reality, when it is incorrectly assumed to be synonymous to the phenomenon that it represents. Puth (1981:54) emphasises that in actual fact "… a model represents a phenomenon, but [it] does not constitute it … [n]or is it a literal description of reality". However, Puth also observes that the model-reality problem is to a large extent due to faulty interpretation on the user's side, rather than to any inherent liabilities of models as such.

4.4.3 Premature closure

Since the very nature of a model induces the model builder to "… strive for a closure or completion of the system, [i]t inevitably implies the inclusion of some factors while others are ruled out as extraneous" (Puth, 1981:55). This last limitation of models then deals with the peril that while the process of abstraction may bring a complex event into manageable proportions, it may still be a liability in that crucial factors can be left out when the model is 'closed' too soon. Mortensen (1972) argues that the less is known about a subject, the greater the danger of premature closure becomes.

4.4.4 Misconceptions or misuse of the term 'model'

Puth (1981:55) outlines a few general misconceptions about models or misuse of models. The first misconception is that the term model is often used to refer to an untested or untestable theory, particularly in the case of theories that lack empirical support. An instance where a model is defined as a theory when it consciously neglects certain variables is noted as a second misconception or misuse of the term. Thirdly, it is held that the term model is being misused when it refers to a theory incorporating idealised parameters. A final misconception is to refer to quantified theories as models. "Simply because a theory is clearly enough defined and thoroughly enough investigated to quantify its central concepts, does not make it any less or any more a theory."

4.5 CRITERIA FOR EVALUATING MODELS

There are a number of criteria that can be used to evaluate what constitutes a 'good' model. As a point of departure, a brief overview of the characteristics as identified by Mayer (1989:59-60) will be presented. According to Mayer a good model is:

- Complete, in that good models contain all the essential parts of the system as well as the key relations among them, so that the user can see how the system works.
- Concise, in that a good model is presented at a level of detail that is appropriate to explain the essential characteristics of the system being investigated.
- Coherent, in that good models make intuitive sense to the user so that the operation of the system is transparent; the model or analogy used is a logical system that contains parts and rules for how the parts interact.
- Concrete, in that good models are presented at a level of familiarity that is appropriate for the user, including physical models or visual models.
- Conceptual, in that good models are based on empirical material accepted in the scientific community.
- Correct, in that a good model corresponds at some level to the actual events or objects it represents – the major parts and relationships in the model correspond to the major parts and relationships in the actual object or event.
- Considerate, in that good models are presented in a manner that is appropriate to the user, using vocabulary and organisation that is appropriate to the field.

Johnson and Henderson (2002:27) emphasise that a good conceptual model is one that is as simple as possible while providing the required functionality. According to these authors, an important guideline for designing a conceptual model is: "Less is more."

Whetten (1989:494-495) identifies seven key questions that can be asked to judge the value of a conceptual paper, but this can equally be made applicable to judging a new contribution to theory development or a conceptual model. His overview is used as basis, but views from other scholars are added where appropriate. The four most important criteria are briefly discussed.

4.5.1 What is new?

This criterion does not necessarily refer to an expectation of a totally new theory, but rather to an expectation that the theory or model should make a significant, value-added contribution to current thinking (Whetten, 1989:494). Two criteria that can be used to judge the value of a theory or model are scope and degree.

Scope refers to the level of theorising (i.e. general versus middle level theories). According to Puth (1981:56), this criterion refers to the range of phenomena to which the model is applicable, as well as the number or extent of facts and data that may be derived by use of the model. Puth notes that a model does not necessarily have formal limits, and that the scope of applicability is empirically determined. At the same time, the delineation of the scope of the model provides the guidelines and incentives for subsequent theorising, either in the form of changes to the initial model or in the construction of a more comprehensive system. As the second criterion, degree reflects the radicalness of the proposal (Whetten, 1989:494). Puth (1981:56) refers to this as deployability, the level to which the model can impact the field.

Whetten (1989:494) notes that scope (or how much of the field is impacted) is in general less important in determining the value of a theory or model than is degree, which refers to the level to which the new contribution differs from current thinking.

4.5.2 So what?

This criterion refers to the likelihood that the theory or model will change the practice of science in the related field. Some of the criteria that can be used to judge this likelihood include the presence of proposed solutions to remedy alleged deficiencies in current theories as well as clear statements about the value of using the new theory or model and explicit indicators of follow-up research. In essence, the purpose of the theory or model should be to alter practice, not simply to tweak a conceptual model in ways that are of little consequence (Whetten, 1989:494).

According to Puth (1981:57), heurism is probably the most important criterion by which a model can be judged. The heuristic value of a model requires that sufficient information about the functional and structural properties of the phenomenon be made available to produce insightful questions and hypotheses. "The purpose of the model is thus to use a known analogue to provide heuristic insights into a relatively unknown phenomenon. If no more is known about the theory functioning as an analogue than about the phenomenon being modelled, the effort is a futile exercise."

4.5.3 Why so?

This criterion refers to how compelling the underlying logic and supporting evidence being offered in the new theory or model are. Criteria that can be used to judge this factor include: how believable is the author's views; are the author's assumptions explicit; does the author offer convincing argumentation and reasonable, explicit views of human nature and the practice in the related field (Whetten, 1989:494).

Weick (1989:517) maintains that a good theory is a plausible theory, and notes that a theory is judged to be more plausible and of higher quality if it is interesting rather than obvious; obvious in novel ways; provides a source of unexpected connections; is high in narrative rationality; or corresponds with presumed realities.

4.5.4 Well done?

This criterion refers to the level to which the proposal and presentation of the new theory or conceptual model reflect seasoned thinking, conveying completeness and thoroughness. The criteria applicable here include the level to which multiple theoretical elements (what, how, why, when, where, who) are covered, in order to give the proposal a conceptually well-rounded (not superficial) quality; as well as the degree to which the arguments being presented as part of the proposed new theory reflect a broad and current understanding of the subject (Whetten, 1989:494).

4.5.5 Other factors to be considered in judging the merits of a theory/model

According to Whetten (1989:494-495), three other factors that can be considered in evaluating the merits of a theoretical contribution are:

- the quality of the proposal, specifically with regard to how well it is written; how logical the flow is; how accessible the central ideas are and how interesting the arguments are to read;
- the timing of the theory or model, specifically with regard to how current it is to contemporary interest of academics and practitioners and how likely it will advance and stimulate discussions in this area; and
- the audience of the proposed theory or model, specifically the range of academics and practitioners that will be interested in the topic.

Puth (1981:56-58) offers two additional criteria that can be used to evaluate a model, namely isomorphism and correspondence, which respectively relate to:

- the isomorphic quality of a model, meaning that there should be at least a partial similarity between the model and its referent. "Isomorphism refers to the degree of similarity in the structures and functions of the two phenomena or processes. The smaller the degree of isomorphism, the greater becomes the probability of inappropriate questions and hypotheses being generated from the analogue", and
- the rules of correspondence between the model and the modelled phenomenon, which means that the procedures of the model construction must be specified. This is necessary for two reasons: so that others are enabled to assess the adequacy of the model construction process, and secondly so that the model can be made clear and unambiguously interpreted. According to Puth (1981:58), the rules of correspondence in model building fulfil the same function as operational definitions in theory construction. "If one is to test the adequacy of an explanation (i.e. model), the procedures leading up to its present form must allow for independent verification."

5 CONCEPTUAL RESEARCH METHODS

Meredith (1993) argues that conceptual research methods, building primarily on description and explanation, lead to a better balance between theory-building and theory-testing research. Reisman's classification of different research strategies discussed earlier is, according to Meredith (1993), only one of the "… few attempts at classifying the different types of conceptual research methods". He then identifies seven different types of conceptual research methods, based on their level of explanatory properties, namely conceptual description, taxonomies and typologies, philosophical conceptualisation, conceptual induction, conceptual deduction, conceptual systems and meta-frameworks.

According to Meredith (1993), the first three conceptual research methods are examples of a basic conceptual model, defined as *a simplified representation or abstraction of reality,* which describes, reflects or replicates a real event, object, or process but does not 'explain' it. The second three – conceptual induction, conceptual deduction and conceptual systems – are examples of an explanatory conceptual framework, which is defined as *a collection of two or more interrelated propositions which explain an event, provide understanding or suggest testable hypotheses*. Meta-frameworks as the last conceptual research method constitutes the final objective of conceptual method theory, and is defined as *a coherent group of interrelated concepts and propositions used as principles of explanation and understanding*.

These conceptual research methods, as classified by Meredith (1993) and ranked based on their levels of explanatory properties, will now be discussed in more detail. Starting with conceptual description, which is the method with the lowest level of explanatory properties, each subsequent method has incrementally more explanatory properties than the one mentioned before it.

5.1.1 Using a basic conceptual model as a research method

In this subsection the first three conceptual research methods will be discussed, as examples of the use of a basic conceptual model, which has descriptive but no real explanatory or explicative properties. These include conceptual description, taxonomies and typologies, and philosophical conceptualisation.

- ***Conceptual description***

The first type of conceptual research is principally descriptive in its modelling of an event or a phenomenon, with the least explanatory power of all the research methods identified here. The conceptual model just describes the relevant concepts or elements and propositions (or relations) but it does not explain why things happen. The conceptual model can range widely in its structure (from well-structured, e.g. a Gantt chart, to ill-structured, e.g. a fish-bone diagram or a textual report); its description may be highly simplified or extensive; and it may represent the interest of the researcher or that of the participant, depending on the purpose of the description.

- ***Taxonomies and typologies***

Taxonomies are listings of items along a continuous scale, where all the items have a relative position on the continuum which allows them to be 'ranked' in order, although they may be classified under different headings and subheadings. Meredith's ranking of the types of conceptual methods in order of least explanatory power (conceptual description) to most explanatory power (meta-frameworks) serves as a taxonomic example. For ease of understanding Meredith subdivides the methods according to categories such as 'frameworks' and 'models'.

Typologies are two- or higher-dimensional taxonomies, where one dimension is inadequate to classify an item properly and one or more additional measures are then needed. The universal 2 x 2 matrix is an example of a typology. Again, the classification here simply describes the situation more accurately than other descriptions but it does not explain the relationships.

- ***Philosophical conceptualisation***

According to Meredith (1993), this type of theory building results from inductive philosophical reflection. It basically integrates a number of different works on the same topic, summarises the common elements, contrasts the differences, and extends the work in some fashion by for example identifying an overall concept or construct or by adding concepts or propositions to an existing body of knowledge. At the more common, less insightful level this activity results simply in a 'tutorial' on some particular topic (e.g. shift scheduling).

At the more creative, theory-building level, the researcher has an 'ah-ha' experience, as he "… suddenly sees connections and patterns in what was heretofore just a series of inexplicable events or studies". Meredith emphasises that, in order to pull the commonalties and patterns into a unique, insightful perspective, the researcher must be thoroughly immersed in the topic under consideration.

5.1.2 <u>Explanatory conceptual frameworks</u>

The distinction between frameworks and the simple conceptual models described above is not the complexity of the model but rather its explanatory power. Meredith's three types of frameworks that will be described here are conceptual induction, conceptual deduction and conceptual systems.

- ***Conceptual induction***

In this approach, Meredith (1993) observes that a number of occurrences of a phenomenon are analysed to infer the nature of the system or treatment which produced them. In some situations, the 'system' might simply be a human interpretation or conceptualisation for which explicit rules have never been clarified. The main objective with conceptual induction then is to explain a phenomenon through the relationships observed between the system's elements. That is, the goal is not only to describe the phenomenon accurately but also to explain how it occurs. Meredith (1993) argues that the accuracy of the description is in fact usually based on the consistency between the explanation inferred and the description of the phenomenon, particularly its elements and relationships.

- ***Conceptual deduction***

With conceptual deduction, a framework is postulated and its consequences or predictions are detailed for comparison with reality, as well as to provide guidelines for managers since it explains the relationship between the elements in the process of the phenomenon being studied. Meredith (1993) clarifies that while the researcher may well be integrating a number of instances, using conceptual induction as a method for the formation of the original conceptual framework in the first place, induction stops with the conceptual framework and deduction begins with the consequences and predictions of the framework, regardless of whence it came or how it was formulated.

Meredith (1993) also notes that deduction is not necessarily from the singular to the many, "… as Sherlock Holmes was famous for his ability to make a single deduction from many fragments of evidence. The critical difference is that deduction leads to inescapable conclusions, whether one or many, based on either one or many elements. Induction is a process of inference, which may well be incorrect. Of course, deduction may be incorrect also, but then the framework was invalid in the first place."

- ***Conceptual systems***

This type of framework is characterised by the many interactions occurring among the elements of the conceptual framework. The conceptual system then consists of multiple concepts with many interrelated propositions, and while the system is typically as complex as a theory, it fails to satisfy at least one of the five requirements for a theory.

Meredith (1993) distinguishes between a theory and a framework, based on whether all the requirements of a theory are met. A theory may then be as simple as a straightforward framework, yet satisfy the five requirements. He cites some well-known examples from management, such as Weber's theory of bureaucracy, Herzberg's two-factor theory of motivation, and Maslow's theory of human needs.

5.1.3 Final objective of conceptual methods theory: meta-frameworks

Meredith (1993) describes meta-frameworks as "…the final objective of conceptual methods theory, namely a coherent group of interrelated concepts and propositions used as principles of explanation and understanding". He describes a meta-framework as the process of theory construction that involves the compilation and integration of previous frameworks (thus a 'meta-framework'), while avoiding composite variables and clearly defining the boundaries of the theory.

5.1.4 Conclusion of conceptual research methods

The credibility of the model, framework or theory in many research situations is gained through its plausibility, its simple face validity (the intuitive recognition of its correctness), which can be both advantageous and disadvantageous (Weick, 1989:524). On the one hand, it provides for more immediate acceptance, particularly in the managerial community. On the other hand, if the model, framework or theory is wrong, it reinforces incorrect assumptions or beliefs and may lead to highly erroneous managerial decisions. Building valid theories then requires empirical theory testing and reiteration of the research cycle (Meredith, 1993; Meredith, 1995).

However, while both theory building and theory testing are important, it is critical to start building useful, empirically derived theories in the first place. Since conceptual research methods lead naturally to synthesising previous research, thus building on earlier studies, and since these methods depend heavily on real-world description, thereby serving as a check on the external validity of research findings, the use of conceptual research methods offers a significant improvement in researchers' ability to build valid theories (Bacharach, 1989:512; Emory, 1980:7; Van de Ven, 1989:487; Weick, 1989:519; Whetten, 1989:491).

6 CONCLUSION: ROLE OF MODELS IN THEORY CONSTRUCTION

In concluding this chapter, a summation of the role of models in theory construction is provided from a more comprehensive viewpoint.

A model is not a substitute for concrete research, but its descriptive and explicative properties delineate the complex elements of the system more clearly. Models then facilitate the derivation of operational constructs, they provide simplified predictions about usage and impact and they prescribe the set of operations by which the predictions can be tested (Lenker & Pacquet, 2003:2; Puth, 1981:61). Driessel (1967:101) also notes that this pattern that typifies models is in reality a method of validation. "It is the decision-making part of theory construction which 'brings abstract theory to terms with reality and translates conceptual advance into concrete progress'."

Hawes (1975) describes the use of models in theory construction as a mapping process, and he uses three key terms – analogue, structure and model – to explain the mapping process. "An *analogue* is a relatively well-developed theory which is used to assist in the development of a theory presently less developed than the analogue… For an analogue to assist in the development of a theory, the substance (i.e. the conceptual material) of the analogue must be stripped away leaving only its *structure*. The mapping process involves projecting the substances of the less developed theory onto the structure. The result of this procedure is a *model*."

A model is therefore the structure of an analogue onto which a different substance has been mapped, and "[I]f the same derivations or deductions hold for the new substance as did for the stripped away substance, the new substance is said to be explained by the old substance, now functioning as a model" (Puth, 1981:61-62). The implication then is that a model ceases to exist once the explanation is satisfactorily completed and it should then be thought of as a theory that is partially isomorphic to the original theory.

In this chapter some key methodological considerations applicable to the role of models in theory construction, including the nature and meaning of theory, the dimensions of research and modes of research have been discussed. In particular, an overview of the role of models has been provided. The meaning, functions, limitations and types of models as well as the evaluation criteria for models have been outlined. A more in-depth overview of the different conceptual research methods, ranked on their levels of explanatory properties, has been offered.

These issues will be used to serve as a guideline to formulate a conceptual model of the relationship between corporate trust and corporate reputation in the next chapter.

CHAPTER 7

A CONCEPTUALISATION OF THE RELATIONSHIP BETWEEN CORPORATE TRUST AND CORPORATE REPUTATION

1 INTRODUCTION: TOWARDS A CONCEPTUAL MODEL

The key premise of this study is that a for-profit organisation's ability to generate sustainable wealth and ensure its own commercial sustainability over time is dependent on its stakeholders' continued commitment and supportive behaviour, which in turn is dependent on the level of trust its stakeholders have in the organisation.

Since a for-profit organisation as a social system will not be able to operate sustainably without the approval and support of its stakeholders, this study contends that the loss of its stakeholders' trust is regarded as one of the most significant threats to the long-term economic sustainability of an organisation. As such, this researcher then argues in this study that any organisation that wants to implement its strategy and ensure long-term sustained growth needs to create trust between itself and all its internal and external stakeholders. It is held that an organisation can do this when it both *becomes* and *is seen to be* a trustworthy and ethical organisation, which highlights the importance of understanding the relationship between corporate trust and corporate reputation.

Based on the perceived lack of conceptual clarity of the corporate trust construct and its relationship with corporate reputation, the primary purpose of this study is to explore the concept, dimensions and variables of trust, in relation to reputation, within a corporate context and a framework of corporate sustainability, with the aim of developing a conceptual model of the relationship between these two constructs.

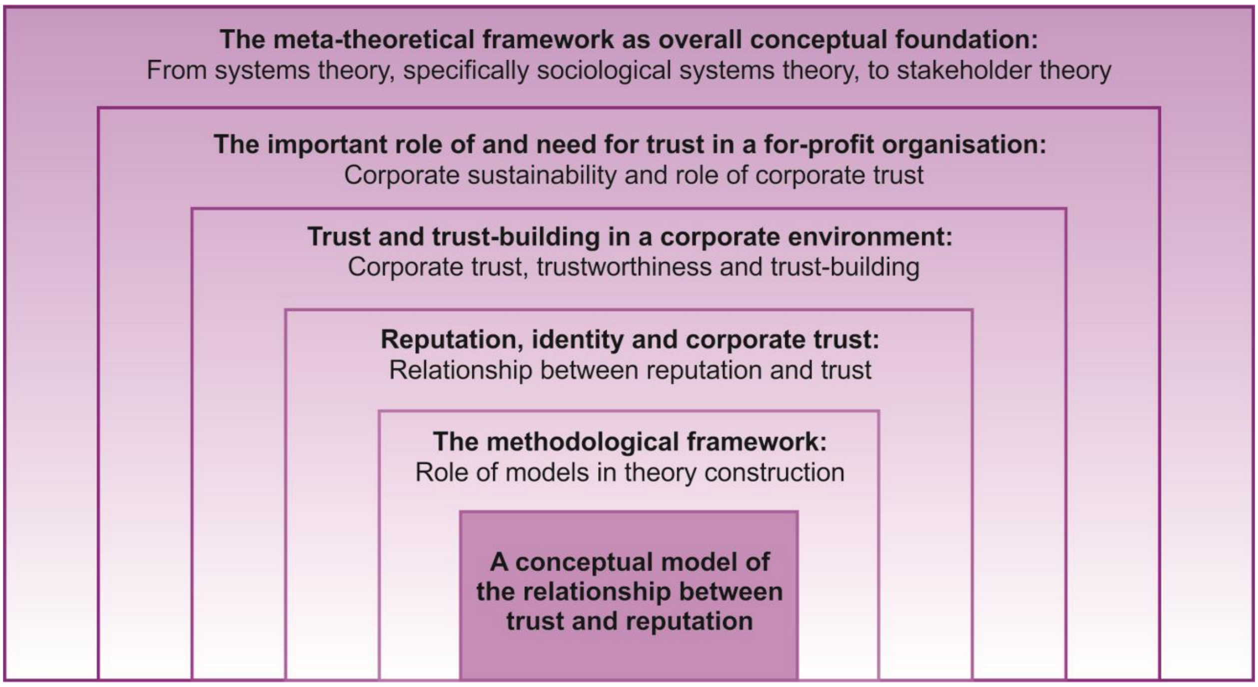
In order to conceptualise the corporate trust construct and its relationship with corporate reputation more holistically, this researcher used the existent literature to investigate the nature and meaning of and relationships between the concepts of corporate sustainability, corporate trust and trustworthiness and corporate reputation, in relation to corporate identity.

Since this is a conceptual study with a methodological focus on the role of models in theory construction, the researcher presents the summation of her study in a number of tables and figures, preparatory to presenting the conceptual model delineating the relationship between corporate trust and corporate reputation as the final outcome.

2 OUTLINE OF CHAPTER CONTENT

The content of this chapter is presented in line with the conceptual framework for this study, as presented in Chapter 1. For ease of reference, it is repeated here.

An outline of the overall conceptual foundation of this study



First, this researcher presents a table outlining and summarising the meta-theoretical framework as the overall conceptual foundation of this study, in order to contextualise her view of the corporate and social environment as held in this study, and to recap the key points regarding the theoretical foundation for the corporate/organisational, trust, reputation and stakeholder constructs.

Next, the researcher reiterates the important role of and need for trust in a for-profit organisation with a figure outlining the existing organisational approaches towards sustainability as well as the proactive, ethical approach proposed by this study, based on the difference in the governance framework and stakeholder focus being applied. A figure proposing and illustrating this researcher's concept of corporate sustainability, with ethics as its core and underlying rationality, concludes this discussion.

Following this, the researcher provides two figures as a summary explanation of her concept of trust and trust-building in a corporate environment. The first figure, as provided earlier in Chapter 4, reiterates the difference between trust and trustworthiness, and provides the key antecedents of trust. A figure representing the continuum of corporate trustworthiness, based on the presence and level of the seven key antecedents of trust, is then presented.

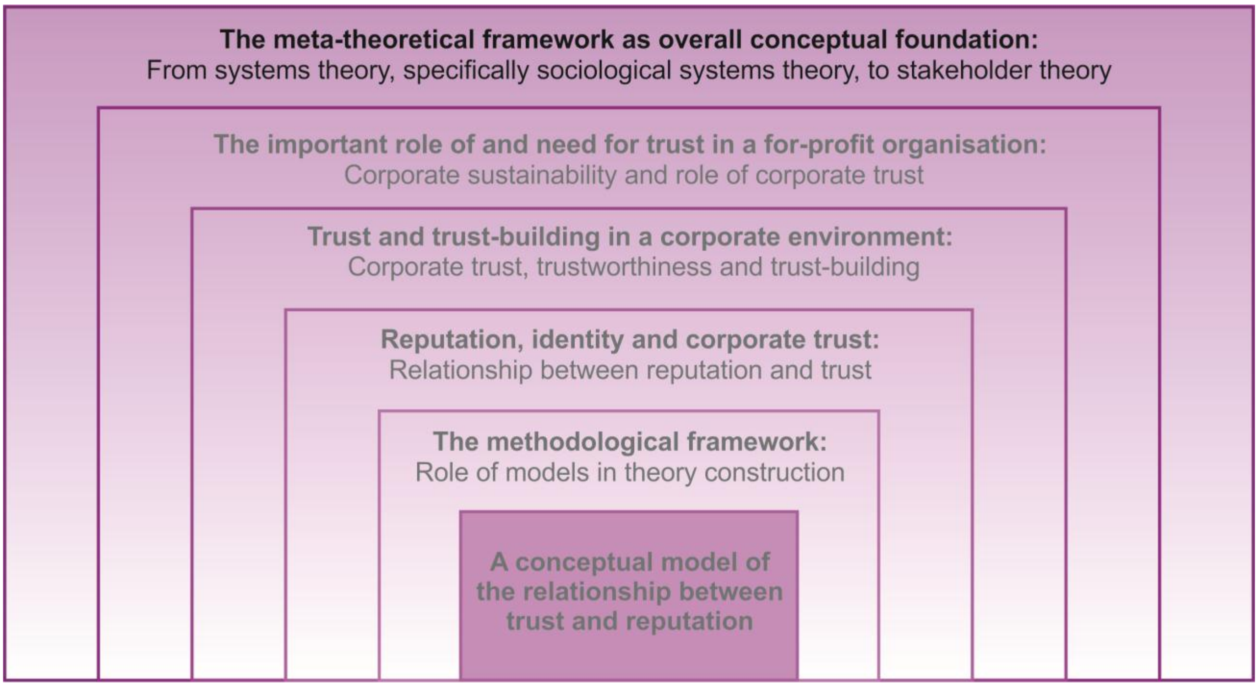
Finally, the chapter dealing with the constructs of and relationships between corporate reputation, identity and trust is summarised in a number of tables and figures. The existing approaches in literature to defining and conceptualising corporate reputation as well as this researcher's new strategic alignment approach to the reputation paradigm within the corporate identity/trust framework are outlined briefly and her *Strategic Alignment Reputation Framework* presented in Chapter 5, which aims to illustrate the basis of the reputation management process, is recapped and explained.

This researcher then disaggregates the key elements of corporate reputation in relation to the identity/trust relationship in order to clarify the interrelationship between these constructs, before outlining a summary of the high-level process of establishing a sustainable, trustworthy reputation that will earn stakeholders' trust, and therefore their support. The researcher concludes the overview of these three constructs by providing a framework that illustrates the corporate identity/reputation/trust process towards long-term corporate sustainability and highlights the strategic role of corporate communication.

The researcher concludes this chapter by proposing her definitive conceptual model of the relationship between corporate trust and corporate reputation as the outcome of this study.

3 SYSTEMS/STAKEHOLDER THEORY: THE CONCEPTUAL FOUNDATION

3.1 POSITION IN THE CONCEPTUAL FRAMEWORK



3.2 SUMMATION OF THE CONCEPTUAL FOUNDATION OF THIS STUDY

In order to clarify and conceptualise the need for as well as the relationship between corporate trust and corporate reputation, the conceptual foundation of this study (as presented in Chapter 2) had as key objective to first contextualise a for-profit organisation as an open social system and a social actor in its own right; one that is dependent on the social environment – the supra-system – in which it operates, as well as one that is capable of acting purposefully and adapting to feedback from its social environment (stakeholders), to ensure its continued systemic growth and survival.

The overview of the theory of organisations, and the organising process theory as a specific approach, was aimed at clarifying the development and evolvement of the nature of organisations since the founding of the early bureaucratic organisations.

This discussion highlighted the fact that a for-profit organisation has to contend with broader societal issues if it wants to thrive, despite the fact that there has been a period in the latter part of the twentieth century where there was a disconnection; where commercial organisations focused more internally on their own improved efficiencies and profits, and less on the impact they had on society. However, due to the changes in society, the rise of the stakeholder view, stakeholders' increasing power to mobilise and act against organisations that they disagree with, and the challenges that for-profit organisations face at the start of the twenty-first century, the increasing focus being placed on the role of and need for values, ethics, cultural processes and meaning systems in commercial organisations was emphasised.

The social theory, as well as the theory of action and decision theory as specific approaches to this theory, was then reviewed in order to lay the theoretical foundation for the corporate trust construct. The independent and purposeful nature of a for-profit organisation as a social actor in its own right, as well as its dependency on its successful interaction with its environment, was again highlighted. The connection between an organisation's intentions and actions, its interaction with its environment and the consequences of its actions were then outlined, in order to position the relevance of consistent organisational behaviour and to contextualise ethics as a critical guide to ensuring consistent trustworthy action and behaviour. This provided a sound basis for and clear link with the corporate trust construct.

As part of the theoretical foundation for the reputation construct, the social identity theory was examined in order to determine when, how and under what circumstances an individual will cognitively, emotionally and behaviourally identify with, commit to and trust another individual. Based on this, the organisational identity theory was then reviewed to determine the factors that are crucial in an organisational environment, which is subject to a more complex and less interpersonal relationship.

The importance of shared values/value congruence was again emphasised, and the organisation's ability to foster a sense of group identity with its stakeholders, because it connects symbolically with them through its behaviour, appearance and its communication and reputation-building activities, was established.

Corporate identity as a construct, contextualised as the character of an organisation, which is determined and displayed by its collective presentation of who it wants to be, who it is and what it says about itself, was then explored. The need for strategic alignment between its vision, behaviour, appearance and speech, in order to be and be perceived as ethical and trustworthy by its stakeholders, was highlighted.

In concluding the theoretical foundation for this study, the stakeholder theory was examined, and the concept of stakeholder capitalism in particular was highlighted, to clarify that a for-profit organisation is dependent on the approval and support of all its stakeholders to operate. However, it was also emphasised that the adoption of an inclusive stakeholder approach will do more than just ensure that an organisation retains its licence to operate, in that it can lead to creating more value for the organisation – to making capitalism work better.

This allowed for the contextualisation of corporate trust as an outcome of systemic behaviour, in terms of how ethically and trustworthy an organisation interacts with its stakeholders and environment. The continued need for stakeholders' approval of its actions, which will ensure its continued performance and chances of survival, was emphasised, and this allowed for the positioning of the importance of ensuring and acting on feedback from its stakeholders.

3.3 OVERVIEW OF FIGURE PRESENTED AS A SUMMARY ILLUSTRATION

The brief overview of the conceptual foundation of this study as discussed above is outlined and summarised in Figure 9. This conceptual foundation also serves as the background and basis for the presentation of the tables and figures to follow, in preparation for the proposal of a conceptual model to clarify and explain the relationship between corporate trust and corporate reputation, as the final outcome to be presented by this study.

Figure 9: An outline of the meta-theoretical framework as the overall conceptual foundation of this study – from systems theory to stakeholder theory (Researcher's own construct, based on literature reviewed in study)

The theoretical foundation for the corporate and social environment

Systems theory → Sociological systems theory

- A for-profit organisation is an open, complex and contrived social system
- As a social entity it is totally dependent on its environment/the supra-system to operate and to continue to thrive
- As a system its main objective is to maintain itself – to continually sustain and grow its economic performance and viability
- This is possible since it can act proactively with its environment and can adapt itself based on environmental feedback

The theoretical foundation for the corporate environment

Theory of organisations → Organising process theory

- Focus on theory of organisations; a social science that puts real human organisations, not abstract principles, at centre of interest
- From ±1990s to date, revival of earlier focus on broader societal issues in commercial organisations
- Increasingly more prominent focus is being placed on role of values, ethics, cultural processes & meaning systems in organisations
- Sees an organisation as dynamic, capable of purposive action and change through the actions of its members, driven by values

The theoretical foundation for the corporate trust construct

Social theory → Theory of action → Decision theory

- A for-profit organisation is regarded as an independent, authoritative, purposeful and goal-directed social actor in its own right
- Is seen as a social entity whose existence is dependent on its interaction with its environment; its stakeholders
- Deals with connection between an organisation's intention/actions; its interaction with its environment & consequences of its actions
- Highlights relevance of consistent organisational behaviour; contextualises ethics as guide to consistent action – link to trust

The theoretical foundation for the corporate reputation construct

Social identity theory → Organisational identity theory → Corporate identity

- Individuals' social identity/identification with an organisation based on shared values, which leads to increased cooperation/support
- Sense of group identity can be fostered via communication & reputation-building activities; possible because it involves motivated manipulation of symbols through speech, appearance & behaviour. Alignment of vision, behaviour, appearance & speech critical
- Concerned with how an organisation collectively presents its character; the basis on which stakeholders make their assessments of it

The theoretical foundation for the stakeholder construct

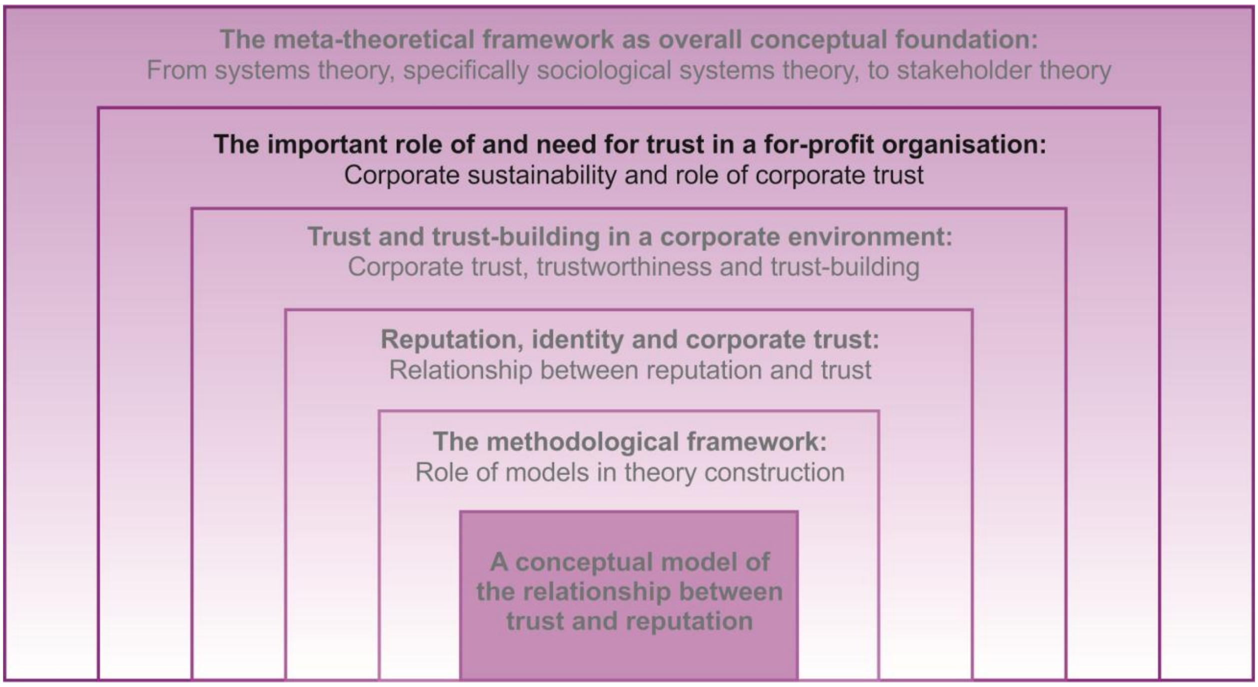
Stakeholder theory → Stakeholder capitalism

- Stakeholder theory/capitalism: how to make capitalism work better; but with different inclusive stakeholder, value-creating approach
- A for-profit organisation is granted its legitimacy by society/its stakeholders; who monitor/sanction its actions; can choose to support
- Presence of trust: outcome of systemic behaviour i.t.o. how ethically and trustworthy an organisation interacts with its environment
- Trust: indication of approval of an organisation's actions based on stakeholders' perceptions and evaluations/assessment of the organisation (corporate reputation). Trust can be regarded as intangible asset to enhance its performance and chances of survival
- Therefore critical for organisation to constantly solicit feedback from stakeholders on how trustworthy it is seen to be/act on feedback

Feedback from stakeholders – organisation as open system adapts

4 THE IMPORTANT ROLE OF AND NEED FOR TRUST

4.1 POSITION IN THE CONCEPTUAL FRAMEWORK



4.2 SUMMATION OF THE VIEW ON THE IMPORTANT ROLE OF AND NEED FOR TRUST

This researcher established the important role of and need for corporate trust in Chapter 3, by positioning it as a key ingredient to ensure the long-term economic sustainability of a for-profit organisation. The construct of sustainability, described in King lll as the primary moral and economic imperative of the twenty-first century based on the fact that it is regarded as one of the most important sources of both opportunities and risks for modern-day business organisations, was examined.

In line with the observation by King lll that the current incremental changes towards sustainability are insufficient and that a *fundamental* shift is required in the way for-profit organisations and directors act and organise themselves, a new approach to corporate sustainability, one with ethics as its underlying rationality, was offered. Corporate sustainability was then contextualised as the process of ensuring that an organisation operates in ways that secure its long-term economic performance by avoiding short-term behaviour that is socially or environmentally detrimental.

The importance of trust in a corporate context to facilitate the fundamental shift that King lll refers to was then established, in line with the global focus being placed on the issue of sustainability, in particular on corporate ethics, responsible corporate citizenship and sustainable business practices. It was observed that people in today's society see for-profit organisations as being morally bound to behave in a way that is good for society and to do so in a sustainable way (Marsden & Andriof, 1998:339).

The need for trust was positioned within this context. Since human behaviour is often difficult to predict, all relationships – also economic relationships – have to be built on trust; and it was theorised that trust in turn is dependent on the value-based and consistently trustworthy nature of a for-profit organisation. In line with this, it was also suggested that ethics, as the 'law that governs human behaviour', should be used as a guide to ensure consistent value-based corporate decision-making and behaviour.

It was also posited that this has increased the need for board members and directors to understand not only what their legal and fiduciary duties comprise, but also, more critically, what their moral duties encompass. While failure to perform their legislative and fiduciary duties properly may render directors personally liable, it was held that failure to perform their moral duties may put the sustainable future of the for-profit organisation at risk if stakeholders lose their trust in the organisation, similar to what happened at Enron, Arthur Andersen and WorldCom.

4.3 OVERVIEW OF FIGURES PRESENTED AS SUMMARY ILLUSTRATIONS

Figure 10 illustrates the existing different organisational approaches towards sustainability as well as the proactive, ethical approach proposed by this study, based on the difference in the governance framework and stakeholder focus being applied. Figure 11 summarises the new concept of corporate sustainability, with ethics as its core and underlying rationality, positioning corporate trust as an essential prerequisite for a for-profit organisation's sustainability.

Figure 10: Different organisational approaches towards sustainability, based on the governance framework/stakeholder focus being applied

(Researcher's own construct, based on Bakan, 2004:144; Caux Principles for Business; Haque, 2010; Jones, 2007:196-197; King 2009:13, 100-101 and Palmer 2011:1-2)

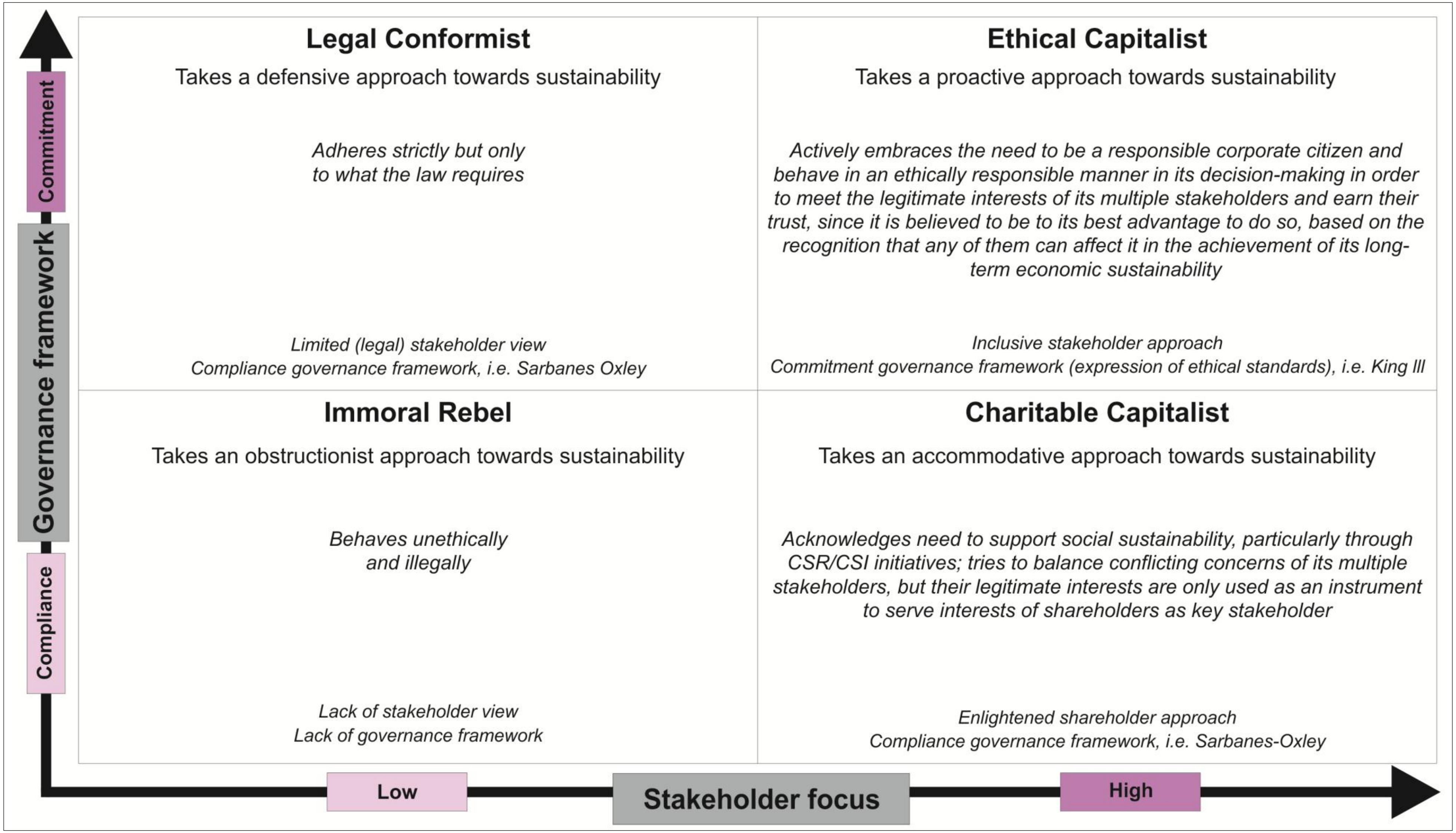
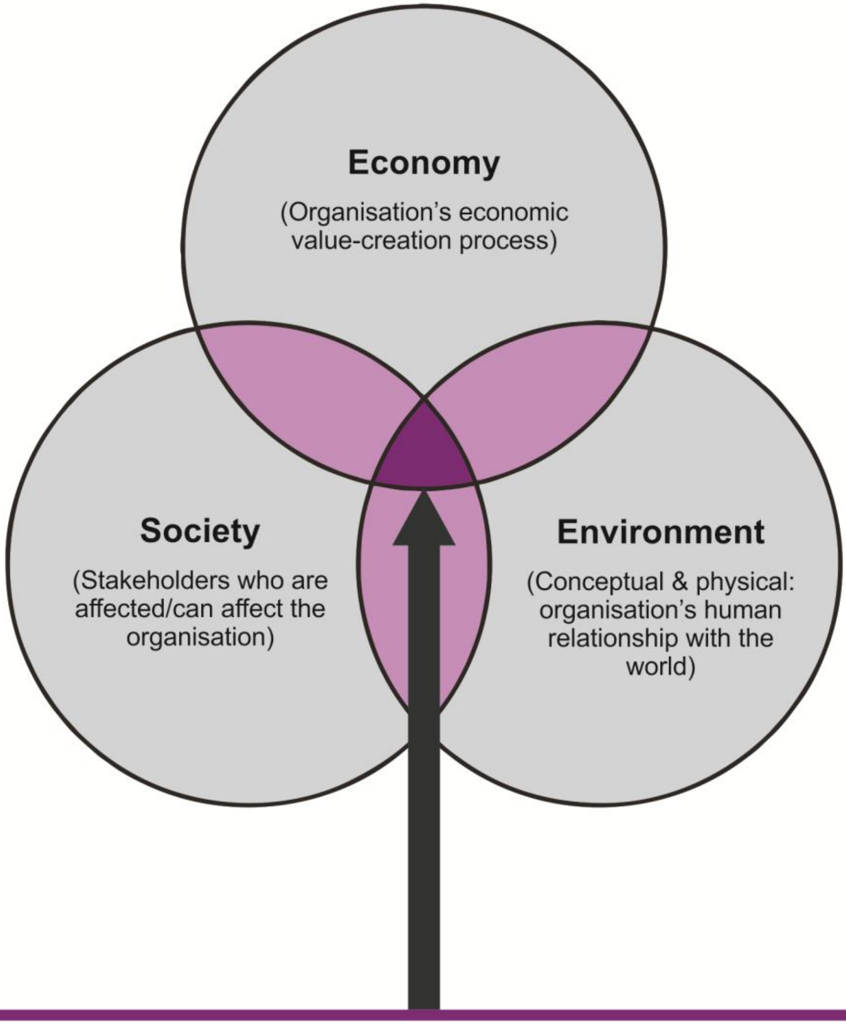


Figure 11: A new interlocking-circles approach to corporate sustainability, with ethics as its core and underlying rationality

(Adapted from Adams, 2006:2; based on Bañon Gomis *et al*., 2011:180,185; Donaldson, 2008:173; Freeman *et al*., 2010:9; Jones, 1991:367, King, 2009:9,13,21)

Corporate sustainability



Ethics as the unifying and underlying rationality to guide consistent value-based organisational decision-making and behaviour in its operations and in resolving disputes and conflicts among the economic, social & environmental sustainability domains

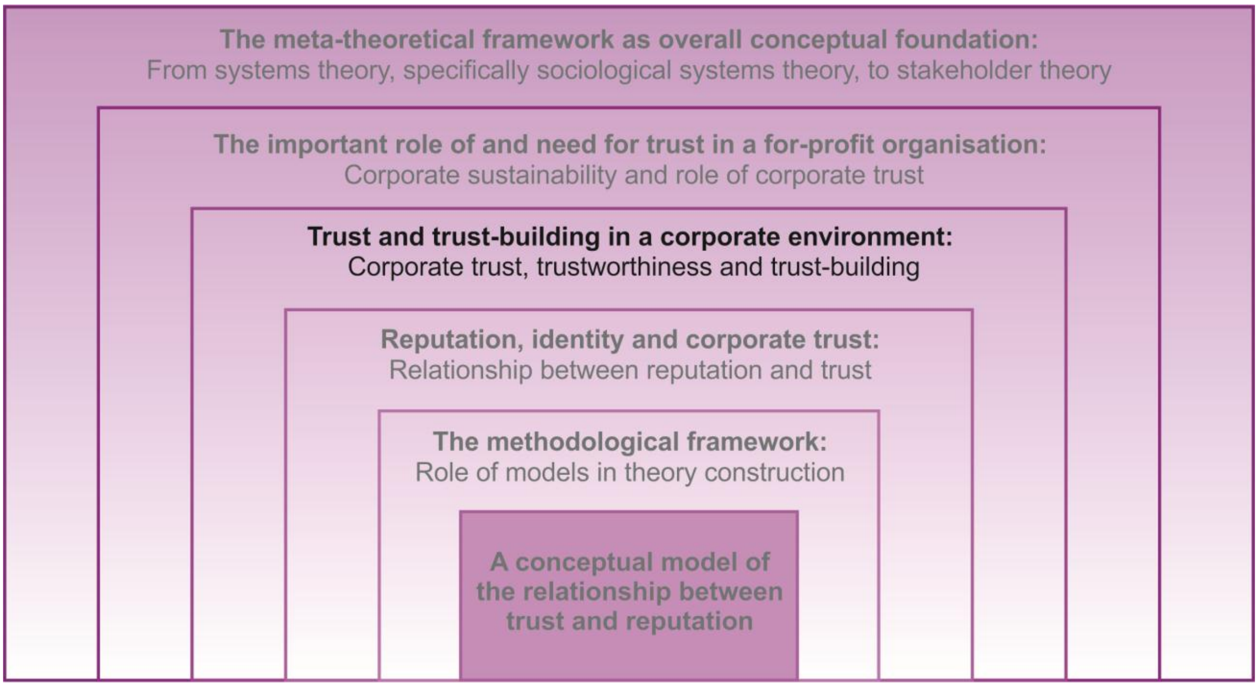
The concept of corporate sustainability:

- refers to the capacity of a for-profit organisation to endure in the long term, in other words to be able to do, and continue to do, business and achieve its economic success and its profit, now and in the future, based on the ethically responsible manner in which it operates, in order to meet the legitimate interests of its multiple stakeholders and earn their trust, centred in the recognition that any of its stakeholders can affect it in its achievement of long-term economic sustainability;
- is subject to the organisation's strategic adoption of a proactive ethical stance as the unifying and underlying rationality to guide consistent value-based decision-making/behaviour; ensure that its decisions are both legally and morally acceptable to the larger community in which it operates; and resolve conflicts among the economical, societal and environmental sustainability domains *(Ethics as underlying rationality)*;
- is based on the assumption that the economy is not a zero-sum game, but that vast wealth and value can be created, especially through labour/voluntary exchange, in line with stakeholder theory that an organisation needs to create as much value as possible for all its stakeholders in order to maximise profits *(Economy)*;
- ensues from an organisation's ability to preserve its licence, the necessary approval to operate, based on its social contract with society, which guarantees certain rights to those who have an interest or a stake in its activities or outcomes. Is therefore dependent on its ability to recognise its responsibility towards its multiple stakeholders and earn their trust and continued support, since its stakeholders – as the ultimate compliance officers – can choose to withdraw their support and cooperation if they feel that it has violated its social contract and acted unethically and irresponsibly *(Society)*; and
- is applicable to the 'experienced' or conceptual environment that it operates in (including the natural world or physical ecosystem). It refers to the organisation's human relationship with the world, as experienced by its stakeholders and reflected in its corporate reputation/level of stakeholders' trust in it *(Environment)*

Corporate trust, grounded in the organisation's ethical character, is then conceptualised as an essential prerequisite for any organisation that wants to sustainably enable and safeguard its long-term economic and organisational performance in a competitive environment

5 TRUST/TRUST-BUILDING IN A CORPORATE ENVIRONMENT

5.1 POSITION IN THE CONCEPTUAL FRAMEWORK



5.2 SUMMATION OF CORPORATE TRUST/TRUSTWORTHINESS CONCEPTS

In Chapter 4 the nature and dimensions of the trust construct were explored in detail. In defining this construct, a clear distinction was made between trust and trustworthiness. It was emphasised that although these two concepts are intricately related, they are not the same, with trust depending upon an expectation of trustworthiness, as well as the trustor's expectation of a moral element in the trustee's intent and behaviour.

The difference between these two concepts was then highlighted to be that perceived trustworthiness (trust) is a belief that trustors have about the trustee, while trustworthiness relates to the characteristics of the trustee, which show him to be worthy of the trustor's trust. Trustworthiness was then clearly defined as *an objective quality displayed by the party which engenders trust*, and trust was definitively identified and defined *as a situational factor, as an outcome, of relationships*. This placed the focus clearly on the importance of internal factors, such as the intrinsic character, identity and values of the trustee that produce his trustworthiness, which in turn encourages the trustor's trust in the trustee as a situational outcome. This underlined the fact that trust cannot be enforced; that a trustee can only earn it on the basis of his own trustworthy behaviour, which led to the proposal that trustworthiness is a key factor that influences trust.

Corporate trust was then proposed as a new high-level trust concept, and the nature of corporate trust was examined. Its key characteristics, including its symbiotic, adaptive and complex yet fragile nature, as well as the fact that stakeholders act prudently when they decide whether to trust an organisation, were highlighted.

Prudence in this sense was interpreted as being based on stakeholders' presupposition of a for-profit organisation's moral foundation and moral constraints, driven by a broader sense of and desire for community and shaped by an array of moral concerns such as fairness, decency and respect. Trust was therefore positioned as being morally desirable and as being both dependent on and the outcome of consistent trustworthy corporate behaviour. Ethics was positioned as the guide to ensure consistent trustworthy behaviour and as such the link between trust, trustworthiness and ethics was made.

The nature of and inclusive interrelationships between the key antecedents of corporate trust were then explored and defined. Based on this overview the need for the presence of all the trust antecedents for perceived trustworthiness to exist was emphasised. However, it was also stressed that ethical behaviour (defined as *the set of moral values that an organisation uses to direct its commercial activity and act fairly, honestly and responsibly*) and integrity (defined as *the ability of an organisation to consistently honour its word and ensure a high level of congruence between its words and its actions*) are the two key antecedents to corporate trust that become more pronounced and crucial in unfamiliar situations and circumstances.

Based on the earlier overview of the corporate and social environment within which business organisations operate in the twenty-first century, and the interpretation that this environment is fundamentally different from the world in which the first bureaucratic organisation functioned, it was observed that the future of modern-day corporations seems to be less certain, less knowable and less foreseeable now than ever before. It was suggested that this is largely due to the fact that the shareholder view that was prevalent in the mid- to late twentieth century is increasingly being replaced by the stakeholder view, and that stakeholders today, either as coherent groups or as ordinary individuals, have the means to make their voices heard and act against those private sector organisations that they believe are breaching the social contract that provides these organisations with their legitimate status in society.

Chapter 4 also provided a detailed discussion of the benefits, barriers, sources, functions and importance of corporate trust. In particular, the link with corporate sustainability set the stage to position corporate trust as an economic imperative, and to propose that it is to the longer-term economic benefit of a for-profit organisation to create and maintain the conditions under which its stakeholders would be willing and would remain willing to trust the organisation, and take the risk of for example buying a product from or investing in the organisation.

With this, the intricate relationship between trust and trustworthiness was reiterated, and it was emphasised that it is only when stakeholders consistently experience trustworthy behaviour from the organisation, that they will develop trust in the organisation, which means that their belief that the organisation will continue to do exactly what it has contracted or promised to do is strengthened.

5.3 OVERVIEW OF FIGURES PRESENTED AS SUMMARY ILLUSTRATIONS

In Figure 12 the difference between trust and trustworthiness is summarised and the relationship between these is illustrated using the key antecedents of corporate trust. Figure 13 illustrates the continuum of trustworthiness, based on the presence/level of the key antecedents of trust, and reiterates the crucial role that ethical behaviour and integrity play in the perception of corporate trustworthiness and the formation of trust.

<u>Figure 12</u>: The difference between trust and trustworthiness and the key antecedents of corporate trust

(Researcher's own construct, based on literature reviewed in this study)

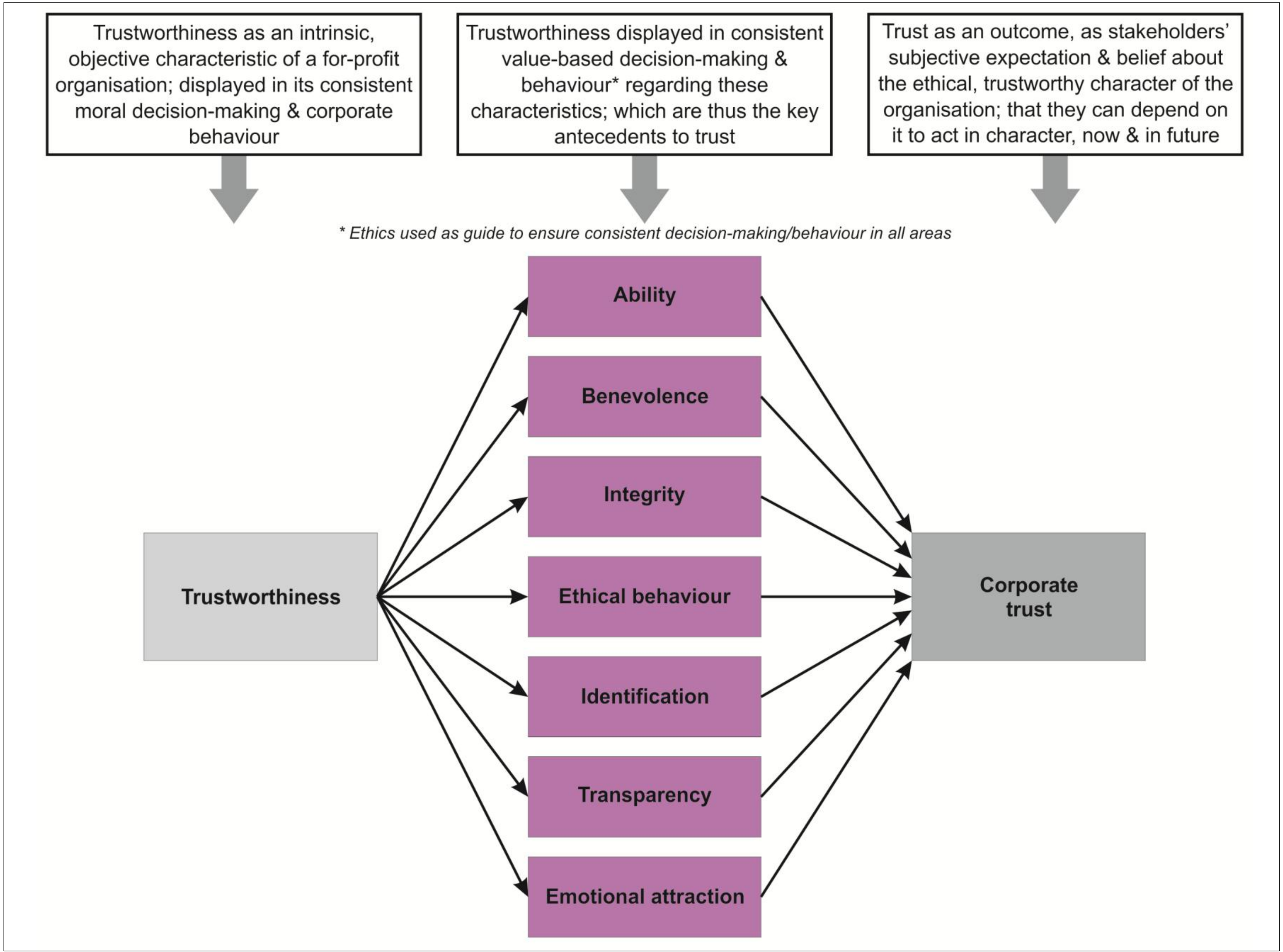
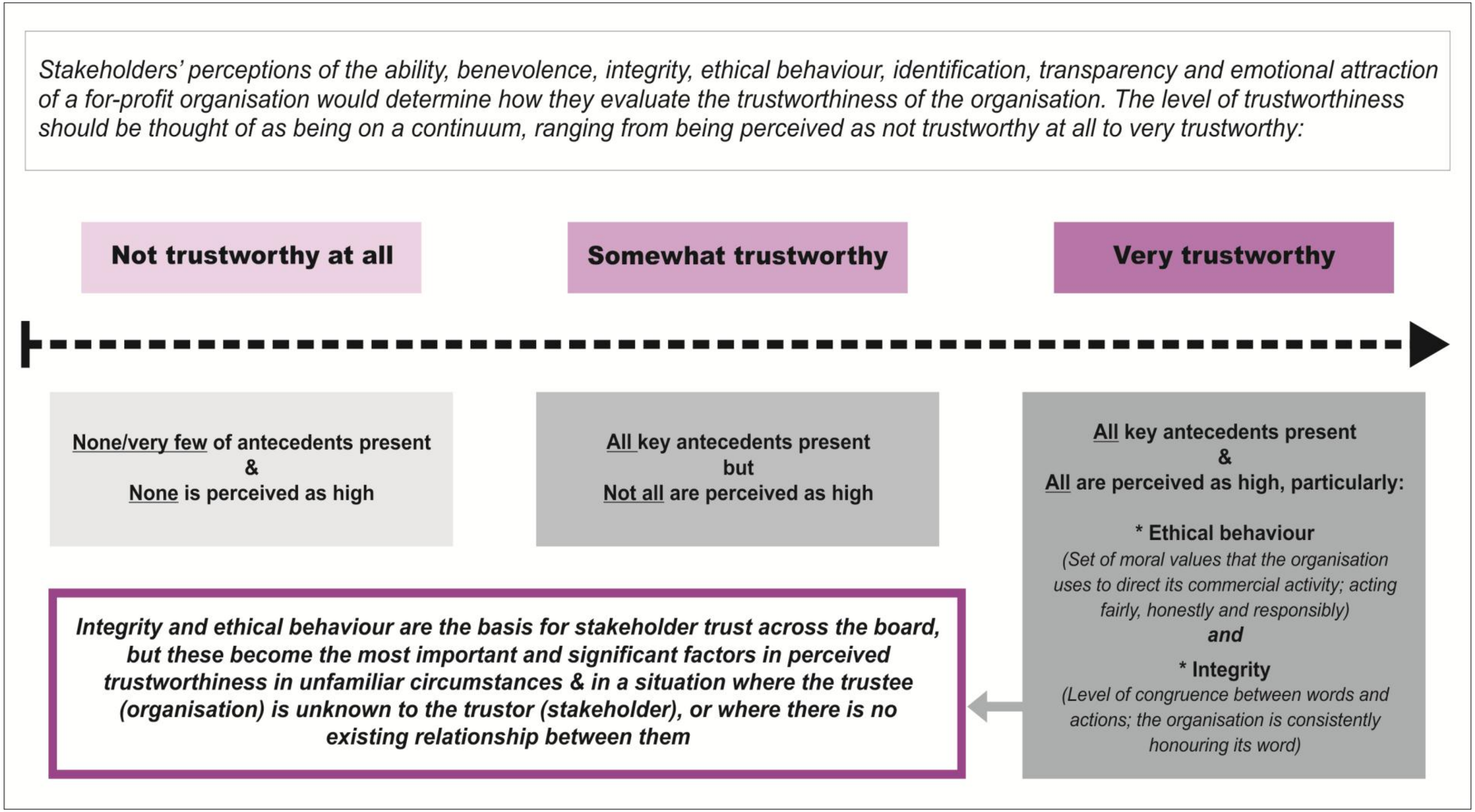
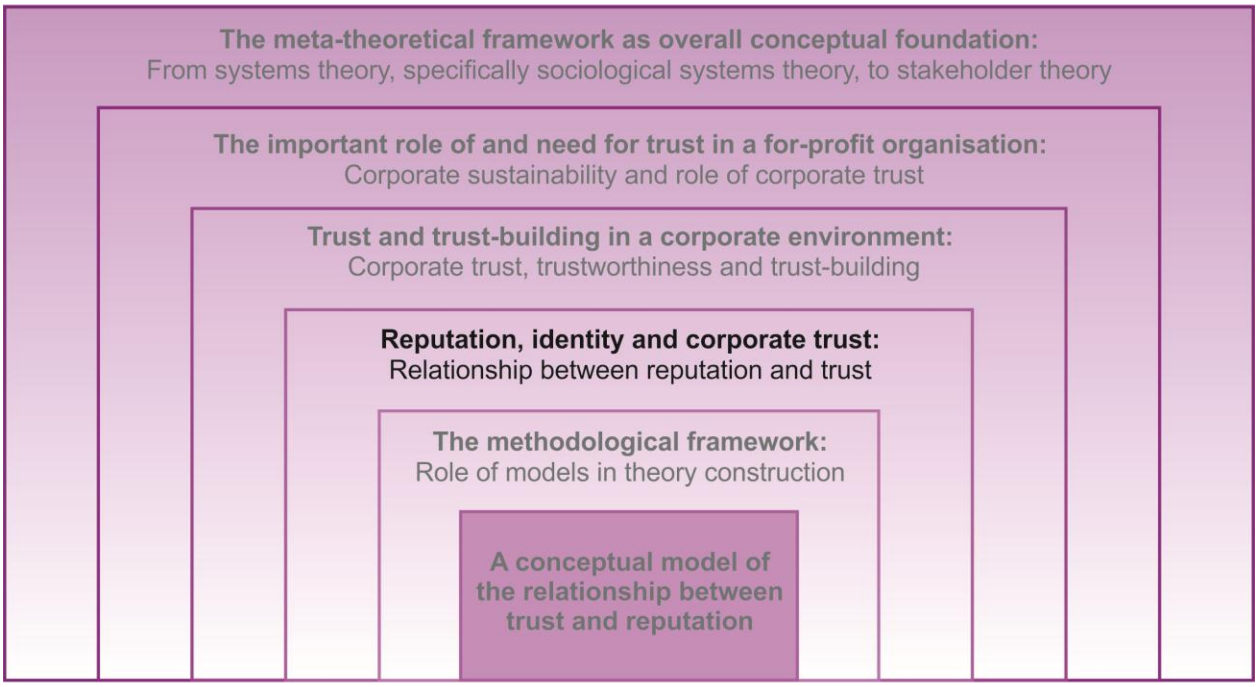


Figure 13: Continuum of corporate trustworthiness, based on presence and level of the seven key antecedents of trust
(Researcher's own construct, based on Greenwood & Van Buren lll, 2010:429; Mayer *et al*., 1995:721; Pirson & Malhotra, 2008:11)



6 CORPORATE REPUTATION, IDENTITY AND TRUST

6.1 POSITION IN THE CONCEPTUAL FRAMEWORK



6.2 SUMMATION OF CONCEPTION OF REPUTATION, IDENTITY AND TRUST

Based on the concept of corporate reputation as the external reflection of an organisation's internal corporate identity, the idea that corporate reputation depends on the character of an organisation was introduced in Chapter 5.

The main developments in defining corporate reputation were explored, and the view of corporate reputation as an assessment of the organisation's past behaviour by multiple stakeholders, which influences their perceptions about the organisation's future ability to meet their expectations as well as their decisions about how to behave towards the organisation now and in the future, was supported and adopted.

The evaluative, impressional and relational approaches, as three of the foremost existing approaches to conceptualising corporate reputation (using stakeholders as the focal point), were then reviewed and a new approach to the reputation paradigm within the corporate identity/trust framework was proposed, using the relational approach as a foundational framework and point of departure.

The main differences between the new strategic alignment approach to corporate reputation management and the relational approach were outlined. In particular, the following key assumptions of the new proposed strategic alignment approach to conceptualising corporate reputation were highlighted:

- An organisation has multiple stakeholders, all of whom are important and many of whom cannot be identified yet, since they will only become stakeholders once they are affected by or particularly when they affect the organisation (such as when individuals start mobilising others to take action against an emerging and topical social issue related to an organisation); and as such an organisation should not focus only on certain traditional and identifiable groups of stakeholders, such as employees, customers and shareholders;
- Corporate reputation is conceptualised as the collective assessment that all internal and external stakeholders make of the trustworthiness of the organisation (of its intrinsic normative characteristics as well as the authenticity with which it consistently acts and communicates in line with its ethical, value-based identity), instead of regarding it as the comparison and equal reflection of the internal and external stakeholders' view and assessment of the organisation, which places the focus of the reputation management process on trying to determine and then close the relational gaps or differences between different stakeholders' perceptions;
- An organisation should then focus on establishing and building a single corporate identity and reputation; indeed it should single-mindedly concentrate on managing its own identity, since this will enable it to manage its own relationship with all its stakeholders – even those not yet identified – in order to deliver on its accountability to them, instead of trying to manage different stakeholder relationships; and
- The concept of a single corporate reputation, as is posited by this researcher, differs from the concept of a single reputation proposed by some authors, where a single reputation score is arrived at by weighing and combining the separate reputation scores from an organisation's different stakeholders (Bromley, 2002:41; Caruana, 1997:109). This study contends that a for-profit organisation should focus on building

a single identity as an ethical and trustworthy organisation, and then use the same measurement to survey all its stakeholders in order to understand how they assess the organisation in terms of that single identity.

Based on these key assumptions of the new proposed strategic alignment approach, it was then argued by this researcher that the process of managing corporate reputation has an initial primarily internal focus, prior to an external focus. This study contends that the key objective of the corporate reputation management process is first to ensure strategic alignment within the organisation, so that it is able to consistently and authentically act according to its stated reputation promise. The organisation first has to build and position those structures and processes that will help to guide organisational behaviour that will evoke stakeholders' trust, i.e. it first has to become trustworthy.

Once this is in place it can then extensively and uncompromisingly communicate its identity as being ethical and trustworthy to all its external stakeholders, i.e. it can communicate its identity so that its stakeholders become aware of what the organisation sets out or promises to be. Stakeholders can then use this as the basis against which they can judge the organisation's actions, words and self-presentation in order to determine if the organisation is authentic and seen to be trustworthy. This will enable the organisation to build and maintain its desired corporate reputation, so that its stakeholders will trust the organisation to fulfil their expectations consistently in a trustworthy, transparent and responsible manner (Davies *et al*., 2010:532).

In preparing to identify and outline the key strategic elements of corporate reputation, the concepts of corporate identity, corporate culture, corporate brand and corporate image were clearly identified. This researcher observed the key differentiation between these concepts and the corporate reputation construct to be related to the locus of control, in that all the corporate concepts other than reputation are driven and shaped by the organisation since these are within its control, whereas corporate reputation, as an assessment that is made about the organisation, is inherently stakeholder-driven and determined, based on how they experience the organisation and its behaviour, or how they interpret the communication they receive from the organisation and about it from external sources.

The current views on the relevance, importance and benefits of corporate reputation were explored, and the traditional view of corporate reputation as an end in itself, as the ultimate intangible asset of an organisation that needs to be built, nurtured and sustained, was challenged.

It was argued by this researcher that a 'good' corporate reputation in and of itself is not sufficient, unless it results in stakeholders' trust and support. Therefore, this study maintains that corporate reputation should instead be regarded as a means to an end – to earn the trust and support of the organisation's stakeholders, without which the organisation cannot thrive or survive. Recent literature on corporate reputation was reviewed and attention was drawn to the increasing awareness of the critical role that trust (yet still misclassified in many instances) plays in the long-term economic sustainability of a for-profit organisation.

This was emphasised in the review of organisational identity theory, where the link between an organisation's sustainability and identity was outlined, and the need for a value-based corporate identity was emphasised, in order to engender stakeholders' identification with the organisation.

In outlining the key dimensions of corporate reputation, various models with different drivers and views on trust were explored. With reference to the traditional reputation drivers, such as in the RQ, three key contributions were made by this study.

The first contribution was to position trustworthiness, and not trust, as an antecedent of reputation. The second contribution was to highlight that the traditional reputation drivers are increasingly becoming blurred and fused with trust drivers. The third contribution was to propose that the antecedents of trust, as conceptualised and defined by this study, should be regarded and used as the key drivers for corporate reputation, aimed at building a single corporate reputation as an ethical, trustworthy organisation in order to earn stakeholders' trust and continued support.

The strategic role of corporate communication, both as the foundation of an organisation's identity and as the primary mechanism with which the organisation establishes, presents and expresses its character to its stakeholders, was then explored. In particular, the constitutive nature of communication was emphasised, in line with the argument that for an organisation to influence how it wants to be perceived by its stakeholders, it needs to change who it believes itself to be. As such, corporate communication was positioned as something that constitutes, produces or alters organisational forms and practices, whether these are strategies, policies, operations, values, formal or informal relations, or structures; and not just as something that happens in an organisation.

This highlighted the fact that instead of only playing a role in traditional communication, reputation and brand-building activities, corporate communication should play a strategic role, and assist the leadership to establish, change and align the organisation's reputation promise, culture and image, in order to collectively present and express the actual identity of the organisation. This study contends that in this manner the real character of the organisation can be expressed in everything that the organisation envisions, does, says and portrays; in order to build a sustainable and enduring corporate reputation as an ethical and trustworthy organisation, which will earn stakeholders' trust and support.

In outlining the role of corporate communication as a sense-making and organising process, the concept of expressive communication, explained as communication that seeks to authentically establish, represent and express the organisation's identity in order to present and establish an authentic corporate reputation, rather than to try and manipulate stakeholders' perceptions, was emphasised. Authenticity in this instance is interpreted as a state in which the internal identity of the organisation positively reflects the expectations of stakeholders and the beliefs of these stakeholders about the organisation accurately reflect the internally held identity.

This contextualised the critical and strategic role of corporate communication as the ongoing, dynamic, interactive process of employing symbols toward the creation, maintenance, destruction, and/or transformation of meanings which are principal to organisational existence.

In making this clear link between an organisation's corporate identity and its corporate reputation, the *VCI Alignment model* was used as point of departure to provide an overview of the key reputation elements and management process.

However, in line with the new strategic alignment approach to corporate reputation management that has been proposed by this researcher, the key reputation elements were identified as the reputation promise, culture and image/self-presentation of a for-profit organisation, which collectively result in its identity or character. The reputation management process was defined by this study as being *a process that focuses on ensuring that these key elements are strategically aligned internally*, since any gaps between them are not merely undesirable, they also detract from and destroy the desired corporate reputation and trust.

Based on the discussion of these key elements in the strategic alignment approach, five main differences between the new *Strategic Alignment Reputation Framework* and the *VCI Alignment model* were highlighted, which in brief relate to:

- a strategic focus on corporate reputation versus a corporate brand;
- a different positioning and definition of two key elements (reputation promise and image);
- the idea of establishing and managing a single corporate identity and reputation versus managing multiple reputations;
- an initial primarily internal versus an external reputation management focus, based on the concept of locus of control; as well as
- the idea of managing the organisation's relationship (single) with its stakeholders by delivering on its accountability to them versus trying to manage its multiple stakeholder relationships (plural).

It was argued by this researcher that while the *VCI Alignment model* includes the image or opinions of stakeholders inside the model, this is excluded in the new *Strategic Alignment Reputation Framework*, which instead positions how stakeholders perceive and assess an organisation as being external to the reputation management process. As such this study contends that stakeholders' assessment is based on the total outcome of the organisation's reputation management process.

Essentially, the new strategic alignment approach to reputation management posits that only that which is within an organisation's direct control and which it can manage – its own identity and its accountability to its stakeholders – can be incorporated into the strategic reputation management process. This highlighted the suggestion that an organisation's focus should be on managing its relationship with its stakeholders, by ensuring that it consistently and authentically expresses its ethical identity, to display its trustworthiness, in order to be able to deliver on its accountability to them.

This chapter was concluded with an outline of the high-level process that an organisation's leaders can follow in order to establish and manage a sustainable corporate reputation that will lead to earning the trust and support of the organisation's stakeholders in the long term and the new *Strategic Alignment Reputation Framework* was presented.

6.3 OVERVIEW OF FIGURES PRESENTED AS SUMMARY ILLUSTRATIONS

Prior to presenting the conceptual model to explain the relationship between corporate trust and corporate reputation as the final outcome of this study (which will be done in the next section), the following table/figures are presented as summary illustrations of the chapter dealing with the corporate reputation/identity and trust constructs:

- Table 3: Demarcating the existing different approaches in literature to defining and conceptualising corporate reputation, and proposing a new strategic alignment approach to the reputation paradigm within the corporate identity/trust framework;
- Figure 14: The new *Strategic Alignment Reputation Framework* proposed by this study, indicating the reputation management process;
- Figure 15: Disaggregating the key elements of corporate reputation in relation to the identity/trust relationship, to clarify the interrelationship between these constructs;
- Figure 16: Delineating the high-level process of establishing a sustainable, trust-worthy reputation that will earn stakeholders' trust and therefore their support, as a set of guidelines to be used by leaders and practitioners; and
- Figure 17: Framework outlining the corporate identity/reputation/trust process towards long-term corporate sustainability.

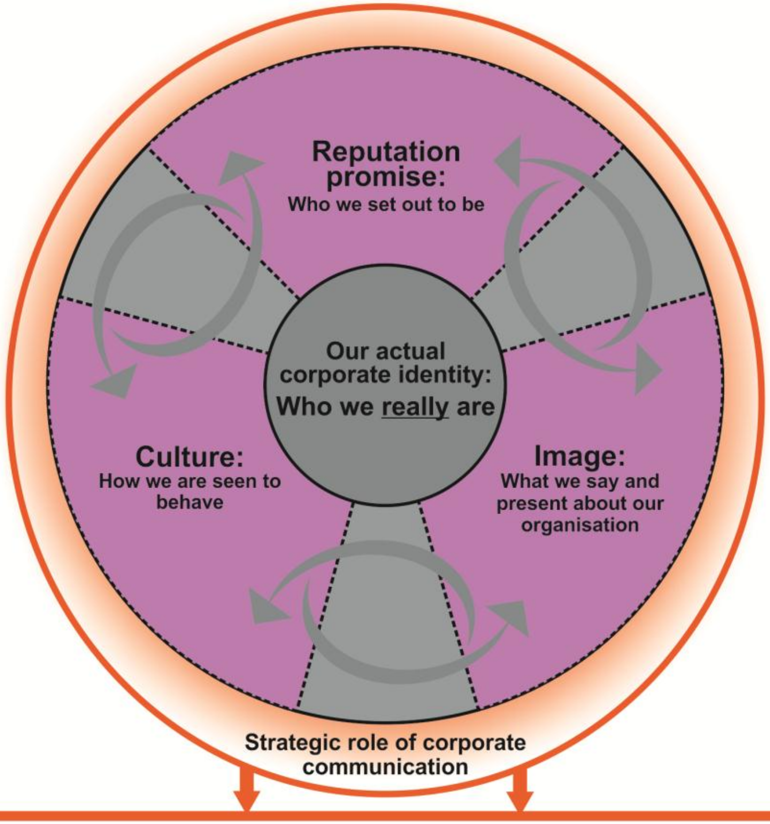
Table 3: Reputation paradigm: Demarcating the existing different approaches in literature to defining and conceptualising corporate reputation, and proposing a new strategic alignment approach to the reputation paradigm

(Researcher's own construct, based on Barnett *et al*., 2006:32-22; Chun, 2005:94-95; Hatch & Schultz, 2008:11)

Approach	Stakeholder audience(s)	Key focus	Key meaning	Reputation based on:	Focus of reputation management process:
Evaluative	Single stakeholder group (Mainly shareholders)	Includes those definitions that define corporate reputation as a resource or an intangible asset of financial or economic value and significance to the organisation, i.e. linking reputation to financial/strategic performance	Reputation as an asset	Financial performance/ value of the organisation	Increasing short-term profits and financial value *Managing its **financial** performance*
Impressional	Single stakeholder group (Either employees **or** customers **or** media)	Includes those definitions of corporate reputation that focus on the general awareness or perception that observers or stakeholders have of an organisation, but who do not make judgements about it, i.e. linking reputation to employee identification; or to images formed in customers' minds; or to favourableness of media coverage	Reputation as a state of awareness	Level of overall awareness, general impression of the organisation	Raising positive awareness about the organisation *Managing its stakeholders' **impressions** through its corporate communication/ marketing efforts*
Relational <u>*Basic assumption*</u> *An organisation has many reputations; focus should be on aligning internal & external views/ perceptions*	Multiple stakeholder groups (Mainly employees **and** customers)	Includes those definitions of corporate reputation that indicate stakeholders' forming a judgement, an opinion or an assessment of the status of the organisation, particularly with regard to the congruence between internal (employees) and external stakeholders' (particularly customers) views of the organisation	Reputation as a comparison of multiple stake-holders'/multiple views	Congruence between internal and external reputation; between three elements – who the organisation says it is, who it really is and how others see it	Managing relational gaps/ differences between internal & external stake-holders' views of the organisation *Managing/aligning its internal & external stakeholders' **perceptions***
Alignment* ** New approach proposed in study* <u>*Basic assumption*</u> *An organisation has/ should have one identity/reputation; focus should primarily be on strategic/ internal alignment to mould/guide external stakeholders' opinion*	Multiple stake-holder groups (**All** internal & external stake-holders who are affected by or who can affect the organisation)	Includes the definition of corporate reputation proposed by this study as stakeholders' collective assessment of the trustworthiness of the organisation, demonstrated by the intrinsic normative characteristics of its corporate identity as well as the authenticity with which it consistently acts in line with its ethical, value-based identity; which requires an approach to ensure strategic alignment between who the organisation says it is (reputation promise), its actual behaviour (culture) and its communication/self-presentation (image)	Reputation as an authentic presentation of the ethical identity of the organisation *(Internal focus on organisation)*	Trustworthiness of the organisation, demonstrated by the consistent authentic display of its ethical, value-based corporate identity	Managing its own identity/ character, to ensure strategic alignment between its ethical, value-based identity, everything it does and says *Managing & delivering on its own **accountability** to its stakeholders (single identity/reputation)*

Figure 14: The new *Strategic Alignment Reputation Framework*

(Researcher's own construct, adapted from Hatch & Schultz, 2008:11)



The reputation promise, culture and image/self-presentation of an organisation, which collectively result in its identity or character, are regarded as the key elements of corporate reputation, in that the relationship between these has to be managed to ensure alignment, since any gaps between them are undesirable, as it distracts from/destroys the desired corporate reputation, which will affect the level of stakeholders' trust & support. This positions the strategic role of corporate communication, i.e. to guide & assist the leadership to constitute/change/align/ present & express the organisation's value-based & trustworthy identity/character

Process of managing corporate reputation:

The process of establishing/managing a sustainable reputation:

- refers to the overall activity in an organisation to manage its own identity, its own character, so that it can consistently and authentically display its trustworthiness to its stakeholders, in order to earn their trust and support to ensure its continued economic sustainability and growth;
- is arguably aimed at managing its own relationshi**p** with its stakeholders in order to deliver on its accountability to them, instead of trying to manage many stakeholder relationship**s,** supporting the proposal of establishing & managing a single corporate identity & reputation;
- is argued to be one with an initial primarily internal focus, since the key objective of this process is first to ensure strategic alignment within the organisation, so that it is able to consistently and authentically act according to its stated reputation promise. This means it first has to build and position those structures and processes that will help to guide organisational behaviour that will evoke stakeholders' trust, i.e. it first has to become trustworthy, before it can extensively communicate its identity as being ethical and trustworthy to all external stakeholders;
- is aimed at providing stakeholders with the basis against which they can judge the organisation's actions, words and self-presentation in order to determine if the organisation is authentic and seen to be trustworthy;
- essentially rests on the foundation of strategic alignment between that which the for-profit organisation sets out to be (captured in its reputation promise as its leaders' strategic vision of its character and key purpose); its actual behaviour (culture); and everything that it says or displays about itself via its corporate communication, advertising, use of symbols and reputation-building activities, which all contribute to its collective presentation of itself (image).

Any misalignment or gap between an organisation's strategic promise, culture and/or its image/self-presentation affects its corporate identity and therefore its corporate reputation, as its stakeholders will then assess it to be untrustworthy in character and withdraw their trust and therefore their support

<u>Figure 15</u>: Disaggregating key elements of corporate reputation, in relation to identity/trust relationship to clarify interrelationships (Researcher's own construct, based on literature reviewed in this study)

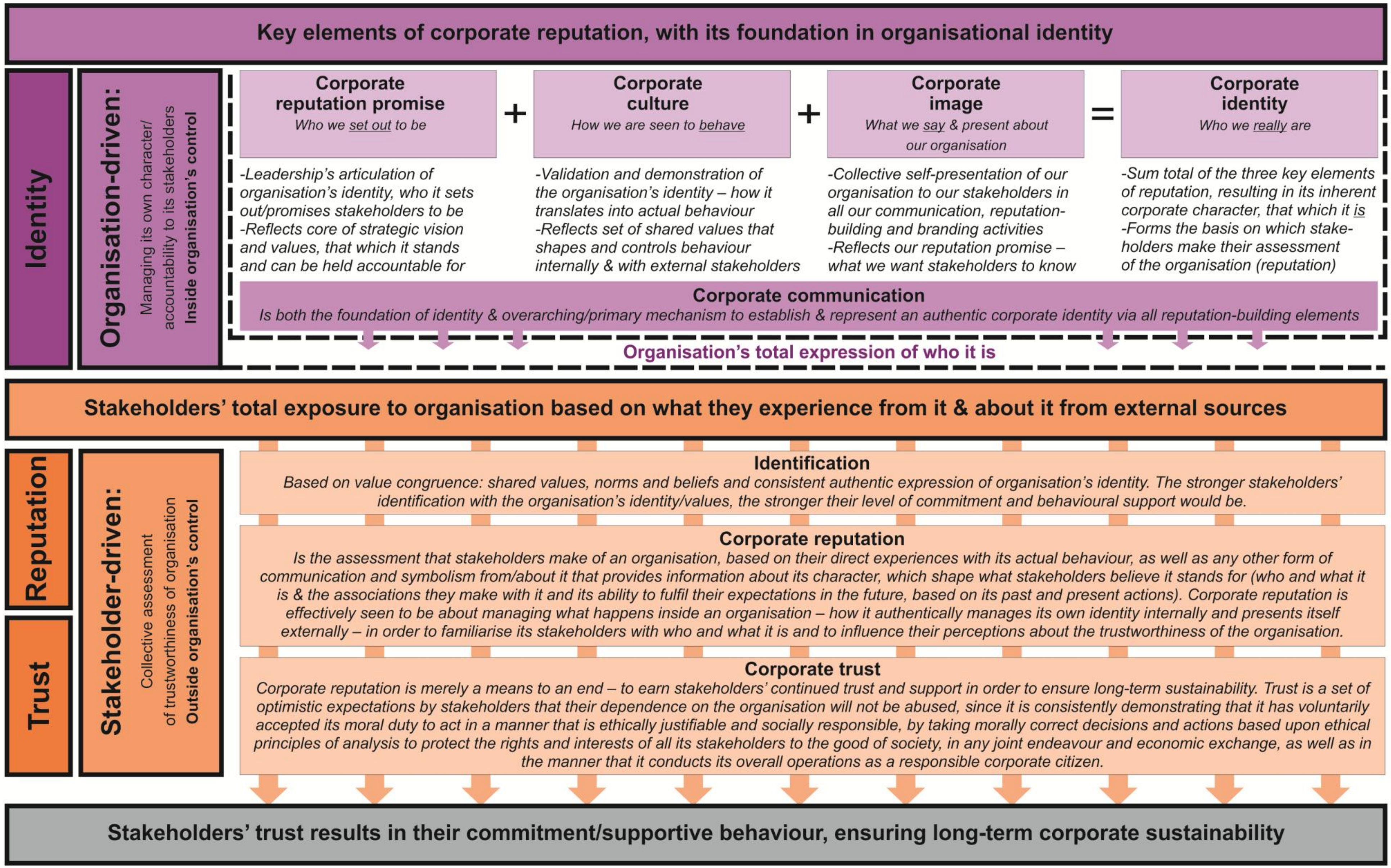


Figure 16: Process of establishing a sustainable, trustworthy organisation & reputation that will earn stakeholders' trust/support (Researcher's own construct, based on literature reviewed in this study)

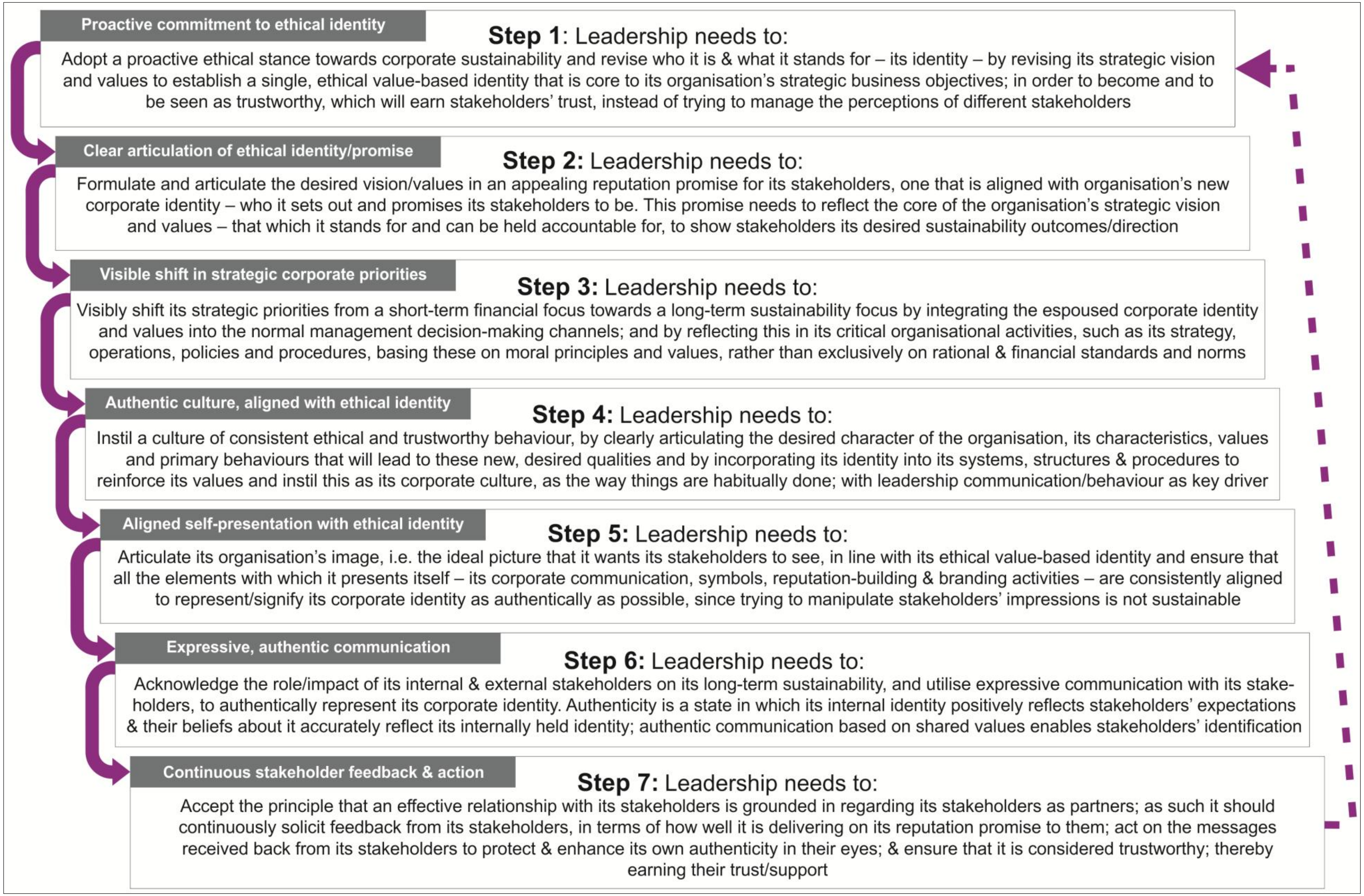
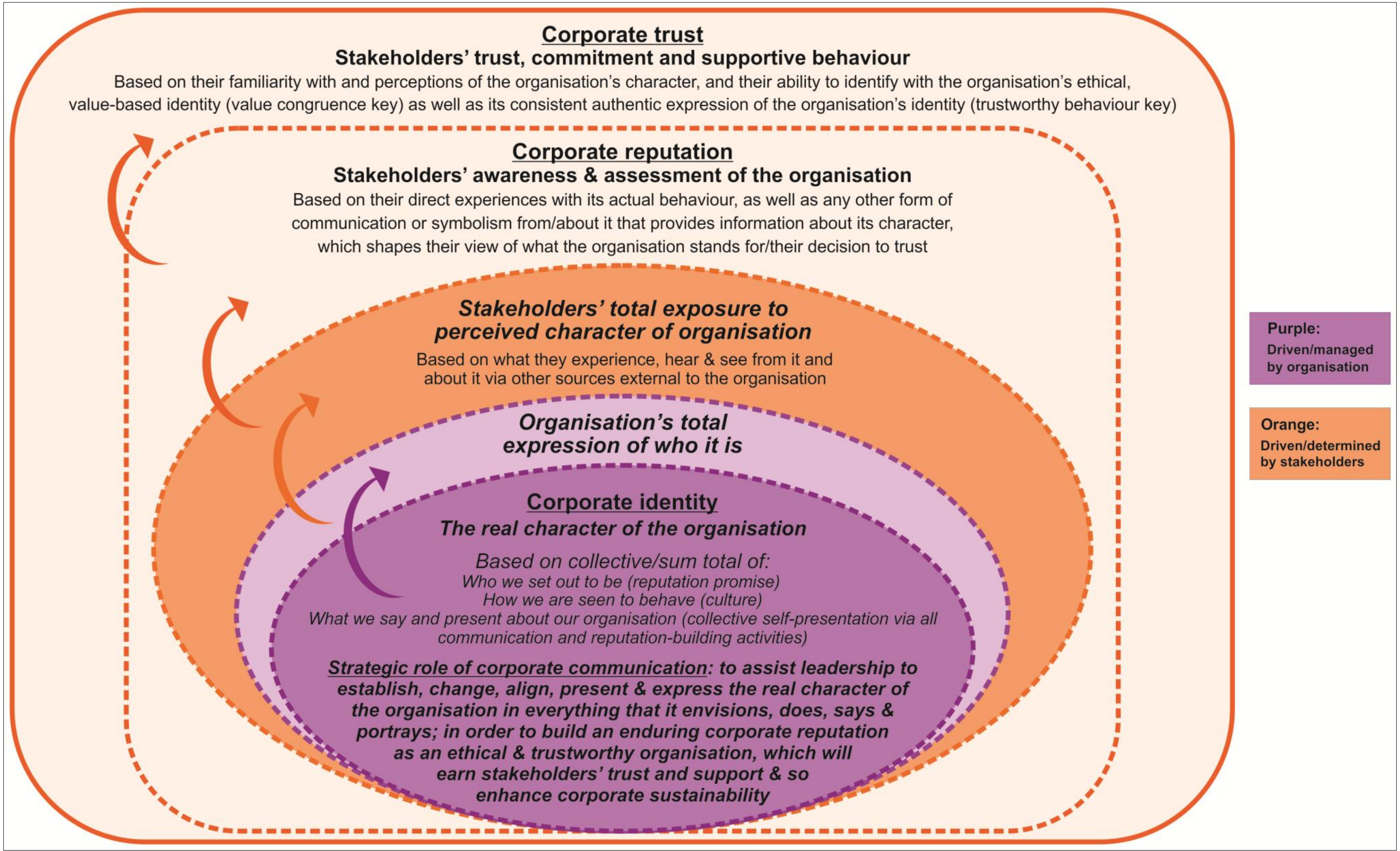


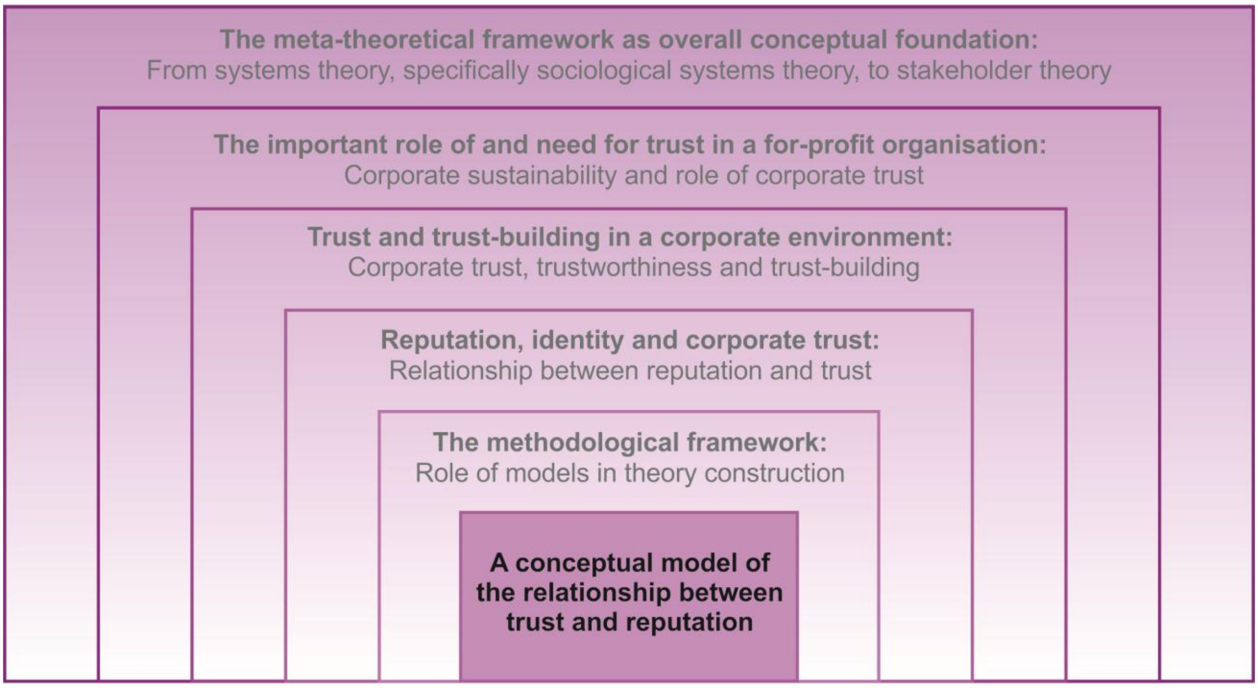
Figure 17: Framework outlining the corporate identity/reputation/trust process towards long-term corporate sustainability

(Researcher's own construct, based on literature reviewed in this study)



7 A CONCEPTUAL MODEL OF THE RELATIONSHIP BETWEEN CORPORATE TRUST AND CORPORATE REPUTATION

7.1 POSITION IN THE CONCEPTUAL FRAMEWORK



7.2 SUMMATION OF THE RELATIONSHIP BETWEEN CORPORATE TRUST AND CORPORATE REPUTATION

The primary objective of this study is to explore the concept, dimensions and variables of trust, in relation to reputation, within a corporate context and a framework of corporate sustainability, with the aim of developing a conceptual model of the relationship between the reputation and trust constructs.

This objective has been set in order to address the current perceived lack of conceptual clarity of the corporate trust construct and its relationship with corporate reputation. In order to meet this objective and develop the conceptual model the existent literature was used to investigate the nature and meaning of and relationships between the concepts of corporate sustainability, corporate trust and trustworthiness and corporate reputation, in relation to corporate identity.

The corporate trust construct and its relationship with corporate reputation were conceptualised more holistically and presented in a number of tables and figures, in preparation for the presentation of a conceptual model delineating the relationship between corporate trust and corporate reputation.

7.3 OVERVIEW OF FIGURE PRESENTED AS CONCEPTUAL MODEL

The definitive conceptual model of the relationship between corporate trust and corporate reputation is presented as the final outcome of this study (see Figure 18 on next page).

8 EVALUATING THE PROPOSED CONCEPTUAL MODEL/STUDY

This chapter is concluded with an evaluation of the merit and value of the proposed model. Based on the discussion of the criteria to be used to evaluate a conceptual model or theoretical contribution, a brief overview is provided to indicate in what measure the conceptual model proposed by this study complies with the most important of those criteria (See Table 4 and Table 5).

There are a number of criteria that can be used to evaluate what constitutes a ‘good’ model. In Table 4, the conceptual model proposed in this study is first evaluated against the criteria for a good model as identified by Mayer (1989:59-60). In Table 5, the value of the theoretical contribution made by this study is measured against some of the criteria as identified by Whetten (1989:494-495).

<u>Figure 18</u>: A conceptual model of the relationship between corporate trust and corporate reputation in a for-profit organisation

(Researcher's own construct, based on literature reviewed in this study)

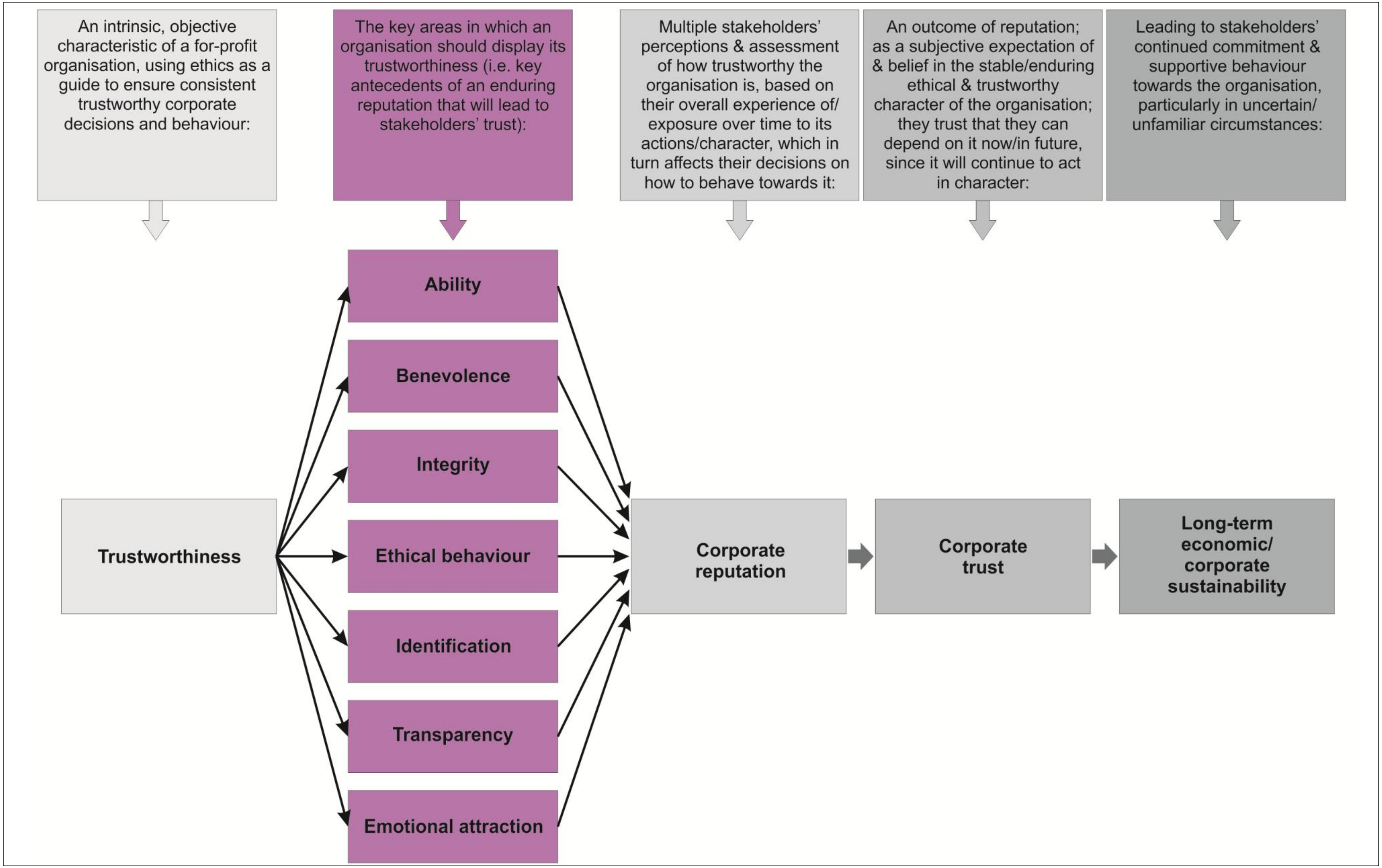


Table 4: Compliance with the criteria of a good model, as identified by Mayer (1989:59-60)

Criteria:	Met?	Compliance of proposed model developed by this study:
Complete	✓	The model contains all of the essential parts of the system this study set out to investigate, and indicates the specific relationship between corporate trustworthiness, reputation, trust and corporate sustainability. It is presented in such a way that the user can see how the system works (inverse direction between corporate trust and reputation).
Concise	✓	The model is presented at an appropriate level of detail to explain the essential characteristics of the system being investigated. The purpose and contribution of this study lies in indicating the specific relationship between corporate trust and reputation in a for-profit organisation. The systemic behaviour, interrelationships and dependencies between a for-profit organisation and its stakeholders are implied. While this has been discussed at length in the study, any attempt to include these in the model would have made the model more complex and less concise. This model meets the criterion of being as simple as possible while providing the required functionality (Johnson & Henderson, 2002:27). “Less is more.”
Coherent	✓	The model makes intuitive sense to the user. The operation of the system (i.e. the specific relationship between corporate trust and reputation) is transparent. It is a logical system that contains parts and rules for how the parts interact.
Concrete	✓	The model is presented at a level of familiarity that is appropriate for the user. Boxes and arrows to connect the boxes are used to indicate the specific relationship between the constructs. This adds order to the conceptualisation by explicitly delineating the relationship pattern and introducing causality (Whetten, 1989:491).
Conceptual	✓	The model is based on empirical material accepted in the scientific community. The general systems theory, and more specifically the sociological systems theory, forms the theoretical foundation for the key premise of this study, namely that a for-profit organisation is a complex social system that is dependent on the quality of the relationship it has with its entire stakeholder network, which influences and determines its ability to generate sustainable wealth over time and ensure its own long-term economic sustainability. Since a for-profit organisation is dependent on its stakeholders’ continued commitment and supportive behaviour, which in turn is held by this researcher to be dependent on the level of trust its stakeholders have in the organisation, it is important to understand what influences and drives their perceptions and assessment of an organisation, and their decision to support it.
Correct	✓	The model corresponds at some level to the actual events or objects it represents – the major parts and relationships in the model correspond to the major parts and relationships in the actual object or event.
Considerate	✓	The model is presented in a manner that is appropriate to the user, using vocabulary and organisation that is appropriate to the field.

Table 5: Compliance with the criteria of a good theoretical contribution, as identified by Whetten (1989:494-495)

Criteria:	Met?	Compliance of proposed model developed by this study:
What's new?	✓	This study meets the criterion of making a significant, value-added contribution to current thinking. This contention is based on two criteria that can be used to judge the value of a theory or model, namely the scope and degree of the theoretical contribution. The scope or level of theorising in this study is regarded as a middle-level theory, since it connects high-level social systems theory with empirically observable patterns, particularly with regard to the role of and the relationship between corporate trust and reputation in a for-profit organisation as a complex social system. This study also complies with the second criterion of degree, which reflects the radicalness of the theory (i.e. the level to which the new contribution differs from current thinking or the level to which the theoretical contribution can impact the field). The clarification of the inverse relationship between corporate trust and reputation, with the emphasis on an ethical, value-based corporate identity, will impact various fields in addition to corporate communication and reputation management (i.e. governance, sustainability and business ethics).
So what?	✓	The study meets this criterion, in that the likelihood that it will change the practice of science in the field of strategic corporate communication (which includes reputation, culture and stakeholder management strategies). It meets the heuristic value criterion, since this study clarifies the specific role and relationship between corporate trust and reputation; it provides proposed solutions to remedy alleged deficiencies in current theories; as well as clear statements about the value of using this model and explicit indicators of follow-up research. It is believed that the adoption and implementation of this model, in conjunction with the adoption and implementation of the proposed solutions in the study, will lead to a change in the practice of leadership, corporate communication, reputation, governance and sustainability. This model provides sufficient information about the functional and structural properties of this relationship to produce insightful questions and hypotheses (Puth, 1981:57).
Why so?	✓	This criterion refers to how compelling the underlying logic and supporting evidence offered in the new theory or model is. The proposed model meets the criteria to judge this factor because it is plausible, being designed to present the relationship between the corporate constructs based on this researcher's explicit assumptions and on existent literature. It is believed that this researcher has offered convincing arguments and reasonable, explicit views of the nature of a for-profit organisation as a social system and its dependency on its stakeholders to ensure the growth and sustainability of the organisation as a system; on the crucial difference between trust and trustworthiness; and on the specific relationship between trust and reputation.
Well done?	✓	The model and theoretical contribution made by this study has been based on basic research and the researcher's experience in the field of corporate communication and reputation management. It is believed that this study and the proposed model is thorough, in that it includes multiple theoretical elements in order to give the proposal a conceptually well-rounded quality; and that the arguments presented as part of the new theory reflect a broad and current understanding of the subject.

9 CONCLUSION: A CONCEPTUALISATION OF CORPORATE TRUST AND CORPORATE REPUTATION

The key premise of this study is that a for-profit organisation is dependent on its stakeholders' continued commitment and supportive behaviour, which in turn is dependent on the level of trust that its stakeholders have in the organisation, in order to be able to generate sustainable wealth and ensure its own commercial sustainability over time. It is held that it can do this when it both *becomes* and *is seen to be* a trustworthy and ethical organisation, which highlights the importance of understanding the relationship between corporate trust and reputation.

Due to a perceived lack of conceptual clarity of the corporate trust construct and its relationship with corporate reputation, the primary objective of this study is to explore the concept, dimensions and variables of trust, in relation to reputation, within a corporate context and a framework of corporate sustainability, with the aim of developing a conceptual model of the relationship between these two constructs.

Using the existent literature to investigate the nature and meaning of and relationships between these constructs, a conceptual model to delineate the relationship between corporate trust and corporate reputation has been developed and presented. Preparatory to the development and presentation of this model, a more holistic conceptualisation of these two constructs, and their relationship with other corporate constructs such as sustainability and identity, was required.

While this was outlined in detail in the previous chapters in this study, the outcome of this has been summarised and illustrated in a number of tables and figures in this chapter.

First, a table providing an outline of the meta-theoretical framework as the overall conceptual foundation of this study has been presented as a summary, in order to contextualise the view of the corporate and social environment held in this study, and recap the key points regarding the theoretical foundation for the corporate/ organisational, trust, reputation and stakeholder constructs.

Next, the important role of and need for trust in a for-profit organisation has been reiterated and summarised in two figures; one outlining the existing organisational approaches towards sustainability as well as the new proactive, ethical approach proposed by the researcher, based on the difference in the governance framework and stakeholder focus being applied; and the other proposing and illustrating the new concept of corporate sustainability, with ethics as its underlying rationality.

This was followed by a summary explanation of the concept of trust and trust-building in a corporate environment, as well as figures aimed at reiterating the difference between trust and trustworthiness and providing the key antecedents of trust. The continuum of corporate trustworthiness was also presented, based on the presence and level of the seven key antecedents of trust.

Finally, a number of tables and figures have been used to summarise the chapter dealing with the constructs of corporate reputation, identity and trust and their relationships, including one that:

- outlines the existing approaches in literature to define and conceptualise corporate reputation as well as the new strategic alignment approach to the reputation paradigm within the corporate identity/trust framework;
- presents and explains the new *Strategic Alignment Reputation Framework* proposed by this study, aimed at illustrating the corporate reputation management process;
- identifies and disaggregates the key elements of corporate reputation in relation to the identity/trust relationship to clarify the interrelationship between these constructs;
- outlines the high-level process of establishing a sustainable, trustworthy reputation that will earn stakeholders' trust and therefore their support; and
- illustrates the corporate identity/reputation/trust process towards long-term corporate sustainability, highlighting the role of strategic corporate communication.

The final outcome of this study, namely a definitive conceptual model of the relationship between corporate trust and corporate reputation, was then presented. This was followed by an evaluation of the model and theoretical contribution made by this study, as the conclusion to this chapter.

CHAPTER 8
CONCLUSION AND RECOMMENDATIONS

1 INTRODUCTION: OUTLINE OF CHAPTER CONTENT

This study concludes by examining the manner in which the primary and secondary research objectives have been met and by making recommendations for future research.

2 RESEARCH OBJECTIVES

2.1 PRIMARY RESEARCH OBJECTIVE

The primary research objective of this study, namely *to conceptualise corporate trust in relation to corporate reputation, in order to develop a conceptual model depicting the relationship between corporate reputation and corporate trust,* has been achieved.

The comprehensive discussion in the previous chapter outlined the manner and process in which these two constructs were explored and investigated and the final outcome of this study was presented in the form of a conceptual model, illustrating the relationship between corporate trust and corporate reputation.

The key contributions made in this regard are then only summarised here as follows:

- These two constructs and the interrelationship between them have been conceptualised and clarified more holistically, within a broader framework of corporate sustainability and corporate identity.
- Corporate reputation has been defined as *multiple stakeholders' perceptions and assessment of how trustworthy the organisation is, based on their overall experience of and total exposure over time to its actions and character, which in turn affects their decisions on how to behave towards the organisation.*

- Based on this, corporate reputation has then been conceptualised as being merely a means to an end – to earn its stakeholders' trust and continued support – and not as an end in itself.
- The concept of establishing and managing a single corporate reputation (as an ethical, trustworthy organisation in order to earn stakeholders' trust and continued support) has been introduced. It should be noted that this concept differs from the concept of a single reputation proposed by some authors, where a single reputation score is arrived at by weighing and combining the separate reputation scores from an organisation's different stakeholders (Bromley, 2002:41; Caruana, 1997:109). This study contends that a for-profit organisation should focus on building a single identity as an ethical and trustworthy organisation, and then use the same measurement to survey all its stakeholders in order to understand how they assess the organisation in terms of that single identity.
- While the concept of multiple stakeholders is not new, the concept has been introduced that an organisation cannot necessarily identify all its multiple stakeholders, since many will only become stakeholders once they are affected by or particularly when they start affecting the organisation.
- The concept of managing its relationship (single) with its stakeholders – even those not yet identified – by managing its own identity in order to deliver on its accountability to all its stakeholders has been introduced, as an alternative to the view that an organisation has to manage multiple relationships (plural) with its identified stakeholders.
- The concept has been introduced that the reputation management process essentially has an initial primarily strategic internal versus an external management focus, based on the concept of locus of control.
- Trustworthiness, and not trust (as is generally indicated in existent literature), has been identified as the key driver/antecedent of corporate reputation, which in turn is regarded as an antecedent of corporate trust. Trustworthiness is then regarded as a key driver that influences both corporate reputation and corporate trust. This means that neither corporate reputation nor corporate trust is sustainable without trustworthiness.
- Since an organisation has to consistently demonstrate and become known for being worthy of its stakeholders' trust, ethics has been positioned as the guide to ensure

consistent value-based corporate decisions and behaviour to display the organisation's trustworthiness, which is defined as *an intrinsic, objective characteristic of a for-profit organisation*.

- Seven key areas in which an organisation should display its trustworthiness have been identified. While these are conceptualised as the key antecedents of trust, it has been proposed that these should also serve as the antecedents for corporate reputation in order to build a reputation that will lead to stakeholders' trust and therefore their support. This allows for corporate reputation to be used as a means to an end. By making the trustworthy characteristics of the organisation visible to its stakeholders in everything it says and does, the organisation ensures that it builds a reputation that will earn its stakeholders' trust and therefore their support.
- Trust, defined as *stakeholders' subjective expectation of and belief in the stable, enduring, ethical and trustworthy character of the organisation, which influences their decisions on how to behave towards the organisation*, has been identified as an outcome of corporate reputation.

The general criteria used to evaluate the legitimacy and value-add of a contribution made to theory development were discussed in Chapter 6. Based on this discussion, this researcher holds that, while this study has used what is known in the communication and reputation management field and expanded on the knowledge base, the conceptual model that was developed to clarify and explain the relationship between corporate reputation and corporate trust has altered the general understanding of these phenomena by "… reorganizing our causal maps" (Whetten, 1989:493).

This study's essential contribution is then regarded as one that has resulted in a paradigm shift, which requires a qualitative change in focus and assumptions in how academics and practitioners view and manage corporate reputation and corporate trust, and which opens up new avenues for further research.

2.2 SECONDARY RESEARCH OBJECTIVES

While the discussion above summarises the overall contributions made by this study, the contributions made with regard to each of the secondary objectives will now be addressed. The role of the secondary objectives has been to systematically examine and address the nature and role of certain key constructs related to corporate trust and corporate reputation, in order to meet the primary objective of this study.

As such, the manner in which each secondary research objective has been met will now be discussed:

2.2.1 <u>Research objective 1</u>

To investigate the nature and meaning of the construct of trust within a corporate context, in relation to reputation, in order to develop a definition of corporate trust.

This objective has been achieved. The trust construct has been reviewed comprehensively and its nature, characteristics and dimensions have been described. The trust construct has been conceptualised as being based on a four-place predicate; as a complex relationship between a trustor, a trustee, the context in which they find themselves as well as the content of the trust (i.e. in terms of *what* the trustor trusts the trustee with). The key characteristic of trust has been identified as being needed or present whenever there is an imbalance in the relationship, regardless of the context, which puts the trustor in a position of vulnerability or risk related to the actions of the other party, and therefore in a position where he has to expect that the trustee will act in a manner that will not be harmful to him.

The inherent nature of trust has been conceptualised as consisting of three fundamental dimensions: trust as an expectation or belief, as a decision and as an action or behavioural manifestation, positioning trust as both the basis and the outcome of behaviour. It has been noted that for trust to be relevant there needs to be the possibility of exit, betrayal or defection by the trustor, and it has been highlighted that this element of social control that is built into any trust relationship also holds true, with significant impact, in a corporate context. The concept of interpersonal trust has been developed and defined as *an optimistic expectation or belief of the trustor concerning the behaviour of the trustee in respect of that for which he is trusted.*

Based on institution-based and systems trust as two existing high-level trust concepts, the concept of corporate trust as a third high-level trust concept has been proposed. The nature, characteristics, antecedents, benefits, barriers, sources, functions and importance of corporate trust have been explored and described.

Corporate trust has then been conceptualised as a more complex, less individuated, more impersonal and more indirect form of trust. In particular, the complexity of corporate trust (or collective trust) has been emphasised. This complexity has been described as being due inter alia to the involvement of multiple actors; the numerous contexts in which corporate trust has to function; and the increased vulnerability of stakeholders to the actions of an organisation. This has been noted as being particularly due to the less direct interaction and lack of familiarity between the two parties, which means that stakeholders are unlikely to have the required detailed, personal knowledge of the for-profit organisation that usually provides the foundation for interpersonal trust. Based on this, a key element of corporate trust has been emphasised, namely that it also involves an expectation of a moral element in the for-profit organisation's intent and behaviour.

Corporate trust has been described as an attitude that allows for risk-taking decisions, based on which stakeholders then act on their belief and decision to engage in the trust-informed risk-taking behaviour, irrespective of their ability to monitor or control the organisation. The dimension of trust as an action or behavioural manifestation – and the link between this fundamental dimension and the concept of corporate sustainability – has been noted as forming an integral part of corporate trust, in that stakeholders can act on supporting the for-profit organisation they trust, or they can act against an organisation if they lose their trust in it, either passively and indirectly (by withdrawing their support) or directly (by actively taking actions to influence others against the for-profit organisation).

The role of corporate reputation in relation to trust has been contextualised within this context, namely to create a sense of familiarity with the organisation by presenting its identity to its stakeholders so that they have a basis on which to form an opinion and make an assessment of the organisation, which in turn will inform their behaviour towards it.

A definition of corporate trust has been developed. In this study, corporate trust is defined *as a subjective attitude, belief and optimistic expectation by a stakeholder or a group of stakeholders that their dependence on the for-profit organisation will not be abused.* This researcher holds that this belief is based on the organisation's consistent demonstration that it has voluntarily accepted its moral duty to act in a manner that is ethically justifiable and socially responsible, by taking morally correct decisions and actions based upon ethical principles of analysis to protect the rights and interests of all its stakeholders to the good of society, in any joint endeavour and economic exchange, as well as in the manner that it conducts its overall operations as a responsible corporate citizen. Based on this expectation, it is believed that stakeholders will commit to and actively support the organisation.

2.2.2 <u>Research objective 2</u>

To investigate the nature and meaning of the construct of trustworthiness within a corporate context, in relation to reputation and trust, in order to develop a definition and description of the characteristics of corporate trustworthiness.

This objective has been achieved. In conceptualising the construct of trust, the construct of trustworthiness has been identified and the difference between these two constructs has been explored. It has been emphasised that the concepts of trust and trustworthiness are not the same, although they are intricately related, with the former depending upon an expectation of the latter. It has been noted that trust as an expression of faith is essentially characterised by affect or emotion, which has been described as an emotional bond in the relationship as well as part of the trustor's belief in the moral character or 'goodwill' of the trustee in the trusting relationship.

The difference between these two concepts has been clarified as follows: perceived trustworthiness (trust) is a subjective expectation and belief that trustors have about the trustee, whilst trustworthiness relates to an objective characteristic of the trustee, which shows him to be *worthy* of the trustor's trust.

The importance of internal factors has been emphasised, such as the intrinsic character, identity and values of the trustee that produce his trustworthiness, which in turn encourages the trustor's trust in the trustee as a situational outcome. It has been underlined that trust cannot be enforced, and that a trustee can only earn it on the basis of his own trustworthy behaviour.

In a brief review of trustworthiness in a personal context it has been highlighted that with personal trust a trustor has to rely on getting to know and trust the trustee based on the personality that the trustee presents of himself (where his self-presentation includes that which he wants to be known of him and which he makes socially visible) and the behaviour associated with this. It has then been noted that when the trustee is consistent in his behaviour and stands by what he has been presenting about himself, he becomes worthy of trust, provided the consistency is related to the inherent character, identity and values of the trustee.

Trustworthiness in a corporate context has been explored and it has again been emphasised that a for-profit organisation cannot command or enforce stakeholders' trust; that it also has to earn it by demonstrating its trustworthiness to its stakeholders in order to engender their trust in the organisation.

Two important points regarding corporate trustworthiness have been reiterated. The first is that while consistency in everything it does and says as an organisation is crucial, it is ultimately the *behaviour* of the organisation, which should be consistent with what it presents of itself to its stakeholders, which will earn stakeholders' trust.

The second key point is that while consistent and aligned behaviour and messages lead to trustworthiness, it needs to based on a *moral* foundation as an innate characteristic of the organisation's character for stakeholders' trust (their belief about the perceived trustworthiness of the organisation) to be sustainable.

It has been noted that similar to personal trust, where trust is a result of getting to know and trust the trustee based on the personality that the trustee presents of himself as well as the trustee's consistent behaviour associated with his self-presentation, a for-profit organisation has to communicate and build a relationship with its stakeholders – it has to 'present' itself so that its stakeholders can get to know what the organisation stands for. This is where corporate communication, corporate image, reputation-building activities and the establishment of an authentic relationship with stakeholders fulfil key functions.

However, it has been emphasised that in order to ensure that these activities contribute to demonstrating the organisation's trustworthiness, it is critical that the messages about a for-profit organisation and the manner in which it presents itself should be consistently integrated and aligned with the identity and values of the organisation as an ethical and responsible corporate citizen. Repeated inconsistency in messages or self-presentation will break down the image of trustworthiness that it wants to portray.

The point that has been emphasised is that corporate trust develops not just on the basis of consistent behaviour, but rather on the basis of consistent behaviour by a for-profit organisation that consistently fulfils its moral duty in particular. As such, it has been posited that corporate trust actually develops on the basis of trustworthy behaviour by an organisation that can be trusted to *consistently* fulfil its *moral* duty as an ethical, responsible corporate citizen to the good of society, and therefore in the longer term, to its own good.

Trustworthiness has then been identified to be a key factor that influences trust, since a trustor's decision to trust is based on the trustworthiness of the trustee, which means that trust is not sustainable without trustworthiness. As these have been identified as two distinct constructs, it has been noted that the terms 'trust' and 'trustworthiness' cannot be used interchangeably.

A definition of trustworthiness has been developed, where trustworthiness is defined as *an objective characteristic of the trustee which makes him worthy of having the trustor's trust.*

2.2.3 Research objective 3

To investigate and disaggregate the key elements of reputation, in relation to the identity/trust relationship within a corporate context, in order to develop a definition and conceptualise the corporate reputation construct.

This objective has been achieved. As this construct and its relationship with the identity/trust constructs have been discussed in detail in the previous chapter, the key contributions made in this regard will merely be summarised here.

This researcher has conceptualised corporate reputation as the collective assessment that all internal and external stakeholders make of the trustworthiness of the organisation (of its intrinsic normative characteristics as well as the authenticity with which it consistently acts and communicates in line with its ethical, value-based identity), based on their overall experience of and total exposure over time to the organisation's actions and character, which in turn affects their decisions on how to behave towards the organisation. In this light, corporate reputation is contextualised as merely being a means to an end, namely to earn its stakeholders' trust and continued support and so ensure its own long-term economic corporate sustainability.

In line with this brief summation, the following key points need to be highlighted:

- This study suggests that a good corporate reputation results from consistent trust-*worthy* behaviour, with its foundation in an organisation's value-based and moral identity, which then influences and reinforces stakeholders' expectations, and therefore their trust and ongoing supportive behaviour.
- This researcher has identified the key elements of corporate reputation as consisting of the organisation's reputation promise (the strategic vision of who its sets out to be); its culture; and its corporate image or self-presentation, which collectively result in the actual corporate identity or character of the organisation.
- The key function of corporate reputation has been conceptualised as the means by which the organisation familiarises its stakeholders with its value-based identity or character, through its strategically aligned and consistent behaviour and self-

presentation in everything it does, says and symbolically presents of itself, in order to mould and influence its stakeholders' perceptions and opinions about the trustworthiness of the organisation.

- Corporate reputation has then been held effectively to be about how authentically an organisation manages its own value-based identity internally and in its presentation externally to its stakeholders to ensure that there is strategic alignment between who it promises its stakeholders to be (on which they will base their expectations) as well as the behaviour, speech and appearance of its employees, in order to ensure that its stakeholders will perceive and assess it to be an ethical, trustworthy organisation, and so earn their trust and support.
- A definition of corporate reputation, one which will lead to stakeholders' trust and therefore to their continued support and commitment to help ensure the long-term sustainability of the organisation, has been developed. In this study, it has been defined as *the collective assessment that all relevant internal and external stakeholders make of the trustworthiness of the organisation; of its character, which influences their decision to trust and support the organisation* (Chun, 2005:105; Fombrun & Van Riel, 2003:230).
- This researcher holds that the organisation's trustworthiness is demonstrated by its intrinsic normative characteristics as well as the authenticity with which it consistently acts in line with its ethical, value-based identity; where stakeholders' opinion of the organisation's character has developed over time, based on their direct experiences with the organisation's behaviour, as well as any other forms of communication and symbolism they receive from the organisation or from other sources, that indirectly provide information about the organisation's actions. These in turn shape what they believe the organisation stands for (who and what it is), and their assessment of its ability to fulfil their expectations in the future, based on its past and present actions.

Apart from developing a definition of corporate reputation, this research objective also indicated intent *to develop and propose a new approach to conceptualise the corporate reputation paradigm*. This part of the objective has also been achieved.

In building on the three foremost existing approaches to conceptualising the corporate reputation paradigm, namely the evaluative, impressional and relational approaches, the strategic alignment approach has been developed and offered as a new approach, and a *Strategic Alignment Reputation Framework*, as an alternative to the *VCI Alignment model* of the relational school, has been developed and presented.

The main differences and contributions of the new approach and model were outlined in detail in the previous chapter, but a few key contributions are reiterated here:

- The concept of the corporate reputation management process as essentially having an initial strategic internal (instead of an external) management focus has been introduced, placing the key focus of the reputation management process on managing what happens inside an organisation; that which is within an organisation's control, in order to ensure that it actually becomes and is seen to be an ethical, trustworthy organisation. This study contends that an organisation's leadership should first establish the organisational structures, processes and culture that will evoke trust, before communicating their commitment to the organisation's single ethical and trustworthy character externally.
- The concept of establishing and managing a single corporate reputation (as an ethical, trustworthy organisation in order to earn stakeholders' trust and continued support) has been introduced. It should be noted that this concept of a single corporate identity/reputation differs from the concept of a single reputation proposed by some authors, where a single reputation score is arrived at by weighing and combining the separate reputation scores from an organisation's different stakeholders (Bromley, 2002:41; Caruana, 1997:109). This study contends that a for-profit organisation should focus on building a single identity as an ethical and trustworthy organisation, and then use the same measurement to survey all its stakeholders in order to understand how they assess the organisation in terms of that single identity.
- Trustworthiness, and not trust, has therefore been identified as the key driver of corporate reputation, which in turn has been conceptualised as an antecedent of corporate trust.

2.2.4 Research objective 4

To investigate the nature and meaning of the concept of sustainability, in relation to corporate trust, by examining the different organisational approaches towards sustainability based on the governance framework and stakeholder focus being applied, in order to propose a new framework of corporate sustainability, with ethics as its underlying rationality.

This objective has been achieved. Based on a comprehensive review of the literature, the nature and meaning of the concept of sustainability have been explored and described in order to position the role and importance of corporate trust – also in relation to corporate reputation – within the context of corporate sustainability in South Africa. This review included an introduction to the philosophy of King lll and an overview of the concept of corporate governance, the nature and meaning of fiduciary duty, the inclusive stakeholder approach and the concept of corporate citizenship, in order to posit the requirement for an ethical approach in business to earn a good reputation that will lead to stakeholders' trust and supporting behaviour, which in turn will enhance an organisation's sustainability.

It has been suggested that this approach will contribute to making the *fundamental* shift in the way organisations and directors act and organise themselves, which according to King lll is required to meet one of the most important sources of both opportunities and risks for modern-day businesses, namely to safeguard its own sustainability, by ensuring that it operates in such a way that it assures that returns will continue in future, instead of focusing only on a short-term profit goal. By highlighting the global focus being placed on the issue of sustainability, in particular on corporate ethics, responsible corporate citizenship and sustainable business practices, the increasing need to understand trust – also in relation to reputation – in a corporate context, what it is, how it is developed and how it can be used to facilitate the fundamental shift that King lll is referring to has been emphasised.

The importance of and need for an organisation to become and be seen as trustworthy (link with trust/reputation respectively) has been posited, inter alia:

- by emphasising the philosophy of King lll that centres on effective leadership and the key challenge of ensuring the sustainability of their organisations through responsible corporate citizenship;
- by conceptualising corporate governance as the organisation's practical expression of ethical standards in line with King lll (which emphasises that leaders' fiduciary duty gains its momentum primarily at the level of norms rather than at the level of rules);
- by delineating the board of directors as the leaders that King lll is referring to, and by outlining the board's legal, fiduciary and moral duties, in particular to trigger trust behaviour in the organisation by signalling that the social context calls for trust; and
- by highlighting the need for directors to guide the executive leadership of a for-profit organisation to follow ethical guidelines in their decision-making and to take the legitimate interests and expectations of *all* the stakeholders of the organisation into account in every facet of conducting its business.

An overview of the inclusive stakeholder approach and its link with the sustainability of a for-profit organisation, as maintained by King lll and other existent literature, has been presented. The fact that an organisation earns the necessary approval, its 'licence to operate', from its stakeholders, has been emphasised as being vital to long-term corporate sustainability. This has been contextualised as essentially providing a redefinition of economic success in that it focuses on producing lasting positive effects for all stakeholders. In line with King lll, stakeholders have been described as the ultimate compliance officers in an organisation, because they can choose to withdraw their support and cooperation if they feel that an organisation has acted irresponsibly or unethically.

The existing approaches towards sustainability have been examined and outlined as including four stances, namely an obstructionist, defensive, accommodative and proactive approach. An overview of the existing approaches and the introduction of a new proactive approach have been provided in Figure 10.

The development of the sustainability concept has been reviewed and outlined, in order to demonstrate that this concept is increasingly understood as being a much broader concept than the more narrowly defined environmental view that is generally held. The concept of corporate sustainability has been introduced, as outlined in Figure 11, proposing a new interlocking-circles approach to corporate sustainability with ethics as its core and underlying rationality.

2.2.5 <u>Research objective 5</u>

To identify the key elements of corporate trust, in relation to reputation, in order to propose a high-level process that can guide leaders to establish a sustainable, trustworthy reputation that will earn stakeholders' trust and therefore their support.

This objective has been achieved. As this construct and its relationship with the trustworthiness and reputation constructs have been discussed in detail in the previous chapter, as well as in the discussions related to Research objectives 1, 2 and 3, the key contribution made in this regard will be highlighted, following this brief summary:

Trustworthiness has been identified as the key driver for corporate reputation, and trust has been identified as the outcome of corporate reputation. It has also been proposed that the seven key antecedents of trust should be considered to be the key antecedents of corporate reputation which aims to engender stakeholders' continued trust and supporting behaviour.

The key elements of corporate reputation, in relation to its corporate identity, have been identified as the reputation promise, culture and image/self-presentation of an organisation that collectively result in the organisation's actual identity or character.

The focus of the reputation management process has been posited as essentially being an initial primarily internal focus, with the aim of strategically aligning everything that an organisation envision, promises, does, says and presents of itself, in order to portray and demonstrate its trustworthiness to its stakeholders. While this has outlined what needs to be achieved, namely strategic alignment between the reputation elements, it did not clearly outline how it should be done and neither did it clarify the link with the seven antecedents of reputation and trust.

A high-level overview of the process that leaders need to follow to establish a sustainable, trustworthy reputation that will earn stakeholders' trust and therefore their support has been provided in Figure 16.

In brief, the high-level steps that leaders need to follow include:

- ***Step 1***

The very first step starts with the leadership of an organisation, who need to adopt a proactive ethical stance towards corporate sustainability, and then to revise who the organisation is and what it stands for – its identity – by revising its strategic vision, objectives and values to establish a single, ethical, value-based identity that is core to the organisation's strategic business objectives; in order to become and to be seen as trustworthy, which will earn stakeholders' trust, instead of trying to manage the perceptions of different stakeholders. The key antecedents of reputation and trust should be used as a guideline.

- ***Step 2***

The process of revising its corporate identity needs to result in the clear articulation and formulation of the organisation's desired identity, values and behaviour, captured in a concise and appealing reputation promise for its stakeholders that is aligned with its new corporate identity – who it sets out and promises its stakeholders to be. This promise needs to reflect the core of the organisation's strategic vision and values, that which it stands for and can be held accountable for, to show stakeholders its desired sustainability outcomes and direction.

It is important for the leadership to engage with and obtain input from the organisation's stakeholders during this process, so that its new identity and values will resonate with them, and will be something that they will want to identify with.

- ***Step 3***

Once the leadership has articulated the vision and reputation promise of becoming a trustworthy, ethical for-profit organisation, they need to visibly shift the organisation's strategic priorities from a short-term financial focus towards a long-term sustainability focus by integrating the newly adopted corporate identity and values into the organisation's normal management decision-making channels, and by reflecting this in all the critical organisational activities, such as its strategy, operations, policies and procedures, basing these on moral principles and values, rather than exclusively on rational and financial standards.

- ***Step 4***

At the same time that it is changing the organisational management framework to accommodate the newly adopted corporate identity, the leadership also needs to actively plan and lead a culture change programme to change employees' behaviour.

This process is started by clearly articulating the characteristics, the desired values and primary behaviours that will lead to these new, desired qualities, which should be aligned with the clearly articulated desired character of the organisation. This should then be incorporated into all its systems, structures, policies, procedures and programmes that structure, guide, reward and sanction employees' behaviour and performance, in order to ensure that the desired values-based behaviour will be reinforced and eventually become the way things are habitually done in the organisation.

Leadership communication and personal behaviour are two crucial elements in successfully instilling a culture of consistent ethical and trustworthy behaviour that is in line with its newly adopted corporate identity.

- ***Step 5***

While aligning the behaviour of its employees with its newly adopted identity is crucial to become an ethical and trustworthy organisation is key, the leadership also needs to ensure that the image or self-presentation of the organisation in all its forms is strategically aligned with its identity.

This process begins with the leadership's clear articulation of the organisation's image, which is the ideal picture that it wants its stakeholders to see, in line with its ethical value-based identity. The leadership then needs to champion and ensure that all the elements with which the organisation presents itself, that is its corporate communication, symbols, reputational-building and branding activities, are consistently aligned to represent and signify its corporate identity as authentically as possible, since trying to manipulate stakeholders' impressions is held not to be sustainable.

- ***Step 6***

The leadership also needs to acknowledge the role and impact of all its internal and external stakeholders on its long-term sustainability, and utilise expressive communication with its stakeholders, to authentically represent its corporate identity. Authenticity is described here as a state in which the organisation's internal identity positively reflects stakeholders' expectations and their beliefs about it accurately reflects its internally held identity.

While this step is positioned here in the overall process to highlight that the organisation should first focus on managing and getting all its internal elements into place before communicating its newly adopted identity externally, it is emphasised that the leadership should already have dialogues with its internal and external stakeholders during Step 2, in order to get their input on the identity and values that should be incorporated, since only authentic communication that is based on *shared values* will enable stakeholders' identification with the identity of the organisation, and that will lead to identification-based trust, which will result in commitment and supporting behaviour.

- ***Step 7***

The last step in the high-level process is based on the leadership's acceptance that the principle of an effective relationship with its stakeholders is grounded in regarding the organisation's stakeholders as partners, and as such it should continuously solicit feedback from its stakeholders in terms of how well it is delivering on its reputation promise to them – on how trustworthy and ethical it is perceived to be already – using the seven key antecedents of reputation and trust, as proposed by this study, as the key constructs to be measured.

This is where this researcher's proposed Corporate Trust Index, to be developed subsequent to this study, will fit in. The feedback will inform the leadership of where the misalignment or perceived gaps are, and will enable them to address those issues so that it can close those gaps and increasingly become and be seen to be trustworthy.

It is also crucial for the leaders to then act on the feedback that it receives from its stakeholders, in order to protect and enhance the organisation's own authenticity and so ensure their continued trust.

2.2.6 Research objective 6

To identify the dimensions and variables of measuring corporate trust, in relation to reputation, in order to develop a conceptual model that can be used as a guide to develop a valid Corporate Trust Index (CTI) measurement, subsequent to this study.

This objective has been achieved. The seven key antecedents of reputation and trust, as posited by this study, have been identified as the dimensions and variables of measuring corporate trust, in relation to corporate reputation.

The conceptual model, as provided in Figure 18, can be used as a basis for generating an item pool of the variables that represents trust, and to reduce and refine the item pool in order to design a Corporate Trust Index (CTI) measurement scale. The trust measurement scale can then be tested, refined and validated in order to structure the final Corporate Trust Index measurement tool, by attaching weights to the dimensions and deciding on the moderating and/or classification variables.

Based on this, a CTI measurement tool that can be used by organisations in South Africa to measure how well their corporate reputations are being measured and what the level of trust is in their organisations, can be developed and implemented.

3 RECOMMENDATIONS

The recommendations will be presented in line with the overview given in Chapter 1 of the importance and contributions of this study.

3.1.1 Recommendation 1

In line with the main intention of this study to contribute to the theoretical development in the field of corporate trust and reputation management by providing a clear conceptual model of the relationship between the corporate trust and corporate reputation constructs, the first recommendation is related to the conceptual model proposed by this study in order to clarify the key elements of and the interaction between these two corporate constructs, namely that further research should be done to test and validate the proposed model.

3.1.2 Recommendation 2

The second recommendation is related to the key objective of this study to illustrate the importance of corporate communication and contribute to the field of strategic communication management. While the strategic role of corporate communication has been outlined and highlighted as assisting the leadership of an organisation to establish its reputation promise in line with its newly adopted identity as a trustworthy and ethical organisation; change the culture of the organisation; align all forms of its self-presentation; and to practise expressive communication in building an authentic relationship between the organisation and all its stakeholders, this has only been outlined at a high, almost abstract, level.

Further examination of and research into the strategic role of corporate communication, in relation to reputation management, would be advantageous, especially if more practical guidelines can be developed and proposed.

3.1.3 Recommendation 3

The third recommendation of this study is related to the proposed contribution to the field of strategic management by providing a clear conceptual model of how to manage the relationship between the corporate trust and reputation constructs.

While the key elements that the leaders of a for-profit organisation need to focus on in their quest to build a sustainable wealth-creating organisation have been identified and a high-level process guideline framework has been proposed to build an enduring corporate reputation that will earn stakeholders' trust, and therefore their commitment and support to help enhance the long-term economic performance and sustainability of the organisation, it is believed that further research aimed at validating the steps in the proposed process model and providing more detailed guidelines, will be beneficial.

3.1.4 <u>Recommendation 4</u>

The fourth recommendation is related to the possible contribution that the conceptual model of corporate reputation and trust and its interrelationship within a corporate sustainability framework make to the field of corporate governance and sustainability.

Since the model proposed by this study in particular has moved away from the traditional triple-bottom-line model, where the focus is on trying to be environmentally conscious and charitably socially responsible in conducting business, to one where ethics is used as the underlying rationality and as the foundation of a for-profit organisation to be a trustworthy and responsible corporate citizen in everything it does, it is recommended that this concept should be further tested and examined within the field of corporate governance. In particular, the manner and content of incorporating the information related to how trustworthy an organisation's stakeholders perceive it to be into an organisation's integrated report needs to be clarified.

3.1.5 <u>Recommendation 5</u>

The fifth recommendation relates to the seven key dimensions and antecedents of corporate reputation and corporate trust as identified by this study.

It is recommended that the conceptual model to explain the relationship between these constructs and the key antecedents be used as a blueprint to develop a valid Corporate Trust Index to measure stakeholders' trust in an organisation (as the conclusive outcome of how well the organisation is managing its reputation). This is also in support of the recommendation in King III (2009:100), namely that directors should measure the gap between organisational performance and stakeholder perceptions.

4 LIMITATIONS

The following are the identified limitations of this study, which could be addressed in future research.

4.1.1 <u>Limitation 1: Research cycle incomplete</u>

The first limitation of this study relates to its methodological framework, which focuses on theory building, and then specifically on the development of a conceptual model as a form of theory construction. This form of theory construction refers to the process where theory is built on the depth dimension, in other words to basic research, and presented to the field for testing.

As discussed in Chapter 6, all the stages in the research cycle process are important, and as such a methodological limitation of this study is that the theory has not yet been tested. However, in line with one of the secondary objectives of this study, the dimensions and variables of measuring corporate trust, in relation to reputation, in order to develop a conceptual model have been identified.

The conceptual model, as provided in Figure 18, can be used as a basis for generating an item pool of the variables that represents trust, and to reduce and refine the item pool in order to guide the design of a Corporate Trust Index (CTI) measurement scale subsequent to this study, as suggested in Chapter 1. The trust measurement scale can then be tested, refined and validated in order to structure the final Corporate Trust Index measurement tool, by attaching weights to the dimensions and deciding on the moderating and/or classification variables.

4.1.2 <u>Limitation 2: Model does not demonstrate systemic interrelationships</u>

The conceptual model that has been developed by this researcher (see Figure 18) does not pertinently indicate the systemic behaviour, interrelationships and dependencies that are at play within a for-profit organisation as a socially engineered system, or within the corporate constructs and organisational processes related to corporate trust, reputation and communication.

While the primary objective of this study has been met, in that a conceptual model has been developed to demonstrate the specific relationship between corporate trust and reputation, this model could be expanded in future work, in order to clarify the possible misconception that the reputation-trust process is linear or one-directional.

4.1.3 Limitation 3: Focus on trust/reputation only in a for-profit organisation

The third limitation relates to the focus of this study, which is confined to a for-profit organisational context. While this focus is informed by the general assumption that non-profit organisations enjoy much higher levels of trust since they serve a cause larger than financial profit and that for-profit organisations in contrast face a more complex challenge of building and sustaining stakeholders' trust, future work could focus on investigating the role of trust in a non-profit organisation.

4.1.4 Limitation 4: Strategic corporate communication approach to be extended

The corporate communication perspective in this study has been limited to the concept of the strategic role that it fulfils in an organisation, particularly with regard to the management of an organisation's identity, reputation and stakeholders' trust. In particular, this study explored the concept of expressive corporate communication, which focuses on the role of communication to express and represent a for-profit organisation's authentic identity rather than to grab attention and manipulate impressions.

While the extended framework and focus of strategic corporate communication has been identified and outlined at a conceptual level, future research could focus on exploring and clarifying the role of strategic corporate communication on a more concrete level.

4.1.5 Limitation 5: Practical application of corporate elements/processes

Since this is a conceptual study, the discussion of the constructs and the processes of implementing and managing these corporate elements has been limited to a high level, dealing with the issues at a conceptual rather than a more practical level.

While high-level guidelines regarding the corporate processes related to trust and reputation and the role of the leadership in this regard have been identified and outlined on a theoretical level, future work could be done to broaden the application of these processes on a pragmatic level.

5 CONCLUSION

This study is concluded with the final observation that it is believed that a significant contribution has been made by this study to address the current perceived lack of conceptual clarity regarding the relationship between corporate trust and corporate reputation within a corporate sustainability framework.

The conceptual model developed as the result of this study suggests an inverse direction to the generally accepted view in existent literature of the relationship between corporate trust and reputation. Where trust is usually regarded as an attribute or antecedent of corporate reputation, this researcher has conceptualised trust as an outcome of corporate reputation.

The operationalisation of the trustworthiness and trust constructs by this researcher has also clarified the relationship between these two constructs, which in turn informed the conceptualisation of the relationship between corporate reputation and corporate trust. In many of the existing reputation models trustworthiness and trust are either not linked to the key dimensions of reputation, or trust (not trustworthiness) is merely indicated as an attribute of one of the key antecedents of corporate reputation. This also then brings into question which key criterion or criteria are used to identify the antecedents of corporate reputation.

This suggests three key contentions in current theory that are being challenged by this study. The first contention being challenged is that corporate trust does not play a critical role in the sustained success and survival of a for-profit organisation, in as much as corporate reputation does. The second contention being challenged by this study is the fact that, when the role of corporate trust in relation to corporate reputation is recognised, it is regarded as an antecedent of corporate reputation. This latter contention indicates that much of the current understanding of the role of corporate trust construct is superficial and that the use of and differentiation between the corporate trust and trustworthiness constructs in relation to corporate reputation are blurred and indistinct. The third contention that is being challenged by this study relates to the more generally accepted antecedents of corporate reputation, where current theory either does not include corporate trustworthiness as an antecedent or where it incorrectly includes corporate trust (vis-à-vis trustworthiness) as an antecedent to corporate reputation.

The first contention has been successfully challenged by this study. Corporate trust has been conceptualised as the more comprehensive construct in the relationship, in that it – rather than corporate reputation – is regarded as the more critical influencer of a for-profit organisation's ability to generate sustainable wealth over time and ensure its own long-term economic sustainability. Corporate reputation has been conceptualised as being merely a means to an end – to earn stakeholders' trust and therefore their commitment and continued support – and not as an end in itself.

The second contention has also been successfully challenged by this study. Since corporate reputation is defined as the collective assessment that stakeholders make of the character of the for-profit organisation, it has been clarified that corporate trust (as a subjective expectation of and belief in the character of the organisation) is an outcome of corporate reputation. Corporate trust, as an expectation of stakeholders, cannot be used to drive and shape the for-profit organisation's character in order to influence how stakeholders perceive and assess the organisation. Corporate trustworthiness (as an intrinsic, objective characteristic of a for-profit organisation) on the other hand, can be used to drive and shape how stakeholders perceive and assess the organisation's character, since the organisation can choose which characteristics it wants to emphasise, demonstrate and display. The seven key areas in which an organisation should validate its trustworthiness have been identified. These are the antecedents of trust.

The third contention has also been successfully challenged by this study. Instead of merely including trustworthiness as one of the attributes or antecedents of corporate reputation, this researcher contends that the antecedents of trust should also be regarded as the antecedents of corporate reputation. This is based on the rationale that a for-profit organisation that uses the seven key antecedents of trust to demonstrate its trustworthy characteristics and to make them visible to its stakeholders in everything it does and says (using its overall strategic corporate communication activities as reputation-building blocks), will be able to build an enduring corporate reputation that will lead to an outcome where stakeholders trust, and therefore support, the organisation.

It should be highlighted that the specific contribution of this study is held to be in the specificity of the relationship between corporate reputation and corporate trust. As such, the conceptual model is presented in such a way that this relationship is specifically highlighted: that corporate reputation depends on the inherent characteristics of an organisation (its trustworthiness), and that trust is the outcome of a reputation that has been built and sustained on the basis of the seven key antecedents of corporate trust, which then influences the organisation's continued growth and sustainability.

This forms the basis for this researcher's argument for an initial primarily internal focus in terms of the corporate reputation management process, in order to first create the kind of organisation that it has promised its stakeholders to be, one that is able to evoke trust. Stakeholders will only perceive and assess the organisation to be authentic and trustworthy if there is consistency between the organisation's actions, words and self-presentation.

It is therefore held by this researcher that the internal structures, processes and culture that will allow for it to evoke stakeholders' trust should first be in place, before the organisation starts to actively and extensively communicate its intent and progress in this regard externally to its stakeholders. Based on its communication activities, stakeholders become aware of what the organisation sets out or promises to be, and they use this as a basis on which to assess the character of the organisation. Only when stakeholders cannot perceive a gap between who the organisation promises to be, how it is seen to behave and what it says and presents about itself, will stakeholders assess it as an organisation that they can trust both now and in future, since their expectation is that the organisation will continue to act in ethical character.

This argument does not mean that the values, expectations and needs of stakeholders are not to be taken into account. On the contrary, it is contended by this researcher that a for-profit organisation needs to ensure that it incorporates its stakeholders' high-level expectations of a relationship based on ethical values into its very core – in its vision and values, its very identity, before it embarks on changing or re-energising and re-communicating its identity.

Similarly, since the purpose and contribution of this study lie in indicating the specific relationship between corporate reputation and corporate trust in a for-profit organisation, the representation of this relationship in the conceptual model should not be taken to mean that the organisational process in this regard is linear or one-directional.

The use of sociological systems theory as the particular paradigmatic perspective of general systems theory as the macro-theoretical basis of this study, clearly positions a for-profit organisation as a socially engineered system, one that is capable of purposive action and change, interacting with and acting on the feedback that it receives from its environment.

Stakeholder theory provides the conceptual bridge between the concept of an organisation as a social system and the construct of corporate trust as a sociological event, since it contextualises the key role that stakeholders play in influencing a for-profit organisation's long-term economic success and viability. This brings the argument that a for-profit organisation is totally dependent on its relationships with its stakeholders, and that it has to earn its stakeholders' trust by becoming a trustworthy, ethically responsible corporate citizen if it wants to ensure its own corporate sustainability, full circle.

These interrelationships and dependencies have been discussed at length, but are not indicated in the conceptual model, since the purpose of the conceptual model is limited to showing the specific relationship between corporate trust and reputation, within a corporate sustainability framework.

Finally, it is also held that the positioning of a for-profit organisation as a socially engineered system; the conceptualisation of the corporate trustworthiness, reputation and trust constructs in relation to the corporate identity construct; as well as the argument for the need for strategic alignment between the organisation's ethical, value-based identity and everything it does and says, illustrate that the role of corporate communication has changed fundamentally.

This study contends that real strategic corporate communication involves more than trying to change stakeholders' perceptions and carefully 'position' the organisation in line with what leaders want to be said about the organisation. Instead, this study contends that the role of strategic corporate communication is to help leaders to (re)define the organisation; to change the culture, the *realities* in the organisation, by helping them to understand its dependency on its stakeholders and environment; by constantly listening to and acting on feedback that it receives from its environment and by ensuring that there is strategic alignment between who the organisation promises to be, how it is seen to behave and everything that is said and presented about the organisation. This should be the focus of strategic corporate communicators.

In conclusion, it is then held that this study, as a conceptual overview aimed at clarifying current and existing theory and providing a new theoretical perspective regarding the nature and relationship between corporate reputation and corporate trust, will have both theoretical and practical value in expanding the field.

The key contribution of this study can be regarded as one that results in a paradigm shift, which requires a qualitative change in focus and assumptions in how academics and practitioners view and manage corporate reputation and corporate trust – a paradigm shift that opens up new avenues for further research.

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