

Abstract for Research Proposal

Alex Todd

Trust Enabling Strategies

To what extent does trust drive exceptional value growth for companies? Can trust be designed?

Background

There is a magic that certain companies have (eBay, Google, Harley Davidson, Coca Cola earlier and maybe also GE and Microsoft) where companies transcend the normal bounds of management. Investors consistently value their shares at epic price/earnings ratios, employees evidence unusual loyalty and performance, customers use their products and gush about them, and the press finds ways to give them the benefit of the doubt (how would the market have responded to any other bank in Canada had it encountered the same IT failure that Royal Bank did earlier last year). Perhaps, "trust" is one of the underlying currencies that make this happen, where trust isn't an accident or an afterthought, but the carefully designed objective of a pattern of actions.

eBay appears to have addressed trust as a critical success factor:

- "We do \$2.25 billion worth of gross sales a quarter entirely on trust," says eBay's chief financial officer, Rajiv Dutta;
- "Today, eBay commands more than 80% of the online consumer and small-business auction market.";
- "Some 34 million people now participate in eBay, which consists of buyers and sellers from all over the world. Hardly any of them know one another. Nonetheless, they ring up commerce at a staggering rate of nearly \$10 billion a year, taking it on faith that someone really will send the money or ship the goods on time. In the overwhelming majority of cases, that trust is richly repaid." - Fast Company, November 2001
- "So strong is eBay's hold, say some observers, that the only force capable of stopping eBay is eBay itself." - Fast Company, November 2001;
- "[eBay] has beaten the odds and is one of the few Internet players that has survived, prospers, and makes money. One notable fact about eBay is that you have never seen a genuinely negative forecast about the company." – Wharton School of the University of Pennsylvania;
- eBay still traded at a 143 P/E, as of June 20, 2002, or 420% of the industry average.

Strong evidence exists that trust is a significant variable for economic growth (a 15% increase in interpersonal trust can increase per capita output growth 1% annually, according to Zak and Knack, 2001) and specific public policies have been shown to directly influence levels of trust. Is there a similar relationship between trust and business value? For example, reputation is one source of trust and is considered to be a very important determinant of business performance:

- *"Corporate reputation is a more important measure of success than stock market performance, profitability and return on investment, according to a survey of some of the world's leading CEOs and organization leaders. Only the quality of products and services edged out reputation as the leading measure of corporate success."* – findings by a recent study of World Economic Forum members (economic leaders) http://www.weforum.org/pdf/am04_survey2.; and
- *"Today, corporate reputation is shaped by the interactions between and among an array of involved and equally empowered interest groups – including employees, regulators, trade partners, academics, consumer enthusiasts, investors, NGOs and media. Corporations now operate in a sphere of cross-influence, where ideas are continuously exchanged and subjected to re-examination."* – according to Global Agenda Magazine (<http://www.globalagendamagazine.com/2004/richardedelman.asp>)

If reputation is a source of trust and one of the most important determinants of business performance, then what other factors are important for trust? What are the relative roles of reputation, brand and experience in building trust? How do regulations, contracts and process controls contribute to achieving trust objectives?

Should trust be an explicit critical success factor, or is it sufficient to continue to address trust issues as a secondary objective and byproduct of traditional business priorities, such as leadership, organization, strategy and finance? Can trust be engineered, or is it too intangible? If business processes can be designed specifically for trust, then how and at what cost?

Project Description

The proposed Study would measure the impact of trust on business value and would identify the relative roles of the most influential contributing factors for trust:

1. Measure and correlate levels of trust with various aspects of business performance in selected industries;
2. Identify and value the relative roles of the factors that influence trust in business; and
3. Determine optimal levels of trust required to achieve specific business objectives.

Potential Benefits to Sponsoring Organizations

This is a proposal for a Trust Enabled™ Business Strategy Research Study to be conducted on behalf of a consortium of leading organizations from diverse industries.

Members of Trust Enablement™ Business Value Consortium would:

- be among the first few organizations in the world to attain exclusive insight into the business value of trust;
- identify the relative role of various trust factors for critical aspects of their business;
- understand how to apply Trust Enabling™ mechanisms to establish and ensure required levels of trust; and
- pinpoint the Trust Enablement™ initiatives that will have the greatest impact on building business value.