Organizational Trust Corporate Governance and Business Ethics

Posted on January 21, 2020

Companies must develop customer trust to survive in the present competitive business world. Each person desires to deal with a company he/she can trust because customers want to create relationships and not just buy. In market research done by Trust Barometer in 2011 and reported by Peppers, the researchers found that 56% of American survey participants stated that they trust businesses (9); this was a big increase from previous research done two years earlier. The findings of this study underlined the importance of trust, indicating that companies that are not trusted are likely to lose customers.

Foundations of Organizational Trust

To develop trust, companies have to first understand what trust entails. Trustworthiness comprises three primary attributes: the technical ability to carry out a duty reliably (ability), acting with benign motives (benevolence), and operating ethically with honesty and fairness (integrity) (Goergen 34). Those companies that show these three elements consistently can quickly gain the trust of their customer. Those who miss out on any of these elements are bound to see their reputation suffer. Just like people, a trustworthy company operates effectively and acts in respect of its stakeholders' interests.

On their part, Peppers holds that developing and maintaining customer trust entails two intertwined competencies: the intention to put customers' interest at hand and the ability to achieve it (11). These two aspects combine to create the foundation on which customer experience is built. To achieve this, companies have to acquire customer intelligence through combining feedback and behavioral data to get these insights.

Service Delivery and Customer Contact

When developing trust, the emphasis should be on service delivery. Goergen mentions that the contact point is perfectly suitable as the central place where a company can focus its trust efforts (34). Accordingly, each contact, be it email, chat, social interaction or call, offers an opportunity that the organization to use to improve or destroy customer trust. When a customer support staff addresses a customer's issues, he builds trust, whereas a representative who only says, "*We do not operate like that"* could damage trust. When the interaction between the customer and the organization goes well, trust is cemented, which leads to loyalty and referrals by the customer. Nonetheless, if the interaction leads to a bad experience, the customer loses trust in the company

and could prefer buying from the competitor.

Customer Focus and Long Term Value

Peppers underlines that developing and maintaining trust starts with a change in organizational culture (7). The majority of companies have traditionally been product-focused, where the aim is to have as much sold as possible. The limitation of this approach, as noted by Peppers, is the only source of the company's earnings is customers, and not the products (7). However, when companies focus on the needs and preferences of various customer segments by the application of customer feedback, companies can create more trusting relationships by offering what is required by the customers.

Galford & Drapeau, writing on developing customer trust, recommend that firms should acknowledge the need for long-term value created by customers (6). As such, companies need to communicate to customers how they value them regularly. Also, companies need to ensure that they deliver exceptional services to meet or surpass the expectations of customers. Lastly, businesses need to provide prompt feedback to customers and interact with them well to create lasting relationships.

Causes of Trust Failure

There are some reasons why companies lose the trust of their customers. According to Galford & Drapeau, companies and businesses can lose trust by becoming mired in scandals, getting into crisis, or suffering continuous underperformance (6). This can result not only in their customers losing trust in them but also in employees, investors, and regulators. Indeed, the reputational damage that follows can be disastrous, as Arthur Andersen and other companies found out. Poor communication also leads to a loss of customer trust (Galford & Drapeau 7). This could be the way customer care staff responds to inquiries or issues raised by the customers or the manner in which a company responds to crises, such as product defects or scandals. Likewise, a lack of consistency in messaging given to the public as well could result in customers doubting the company.

Companies as well are also likely to lose trust when they consistently underperform and fail to meet the expectations of the management and the customer. Examples of companies that have lost trust in this way include Kodak, Xerox, and Polaroid. Also, the organization's management needs to trust other people, particularly the employees. When the workers complain about how they are treated by the firm, customers will also lose confidence in such a company.

Ethical Misconduct and Reputation

A major issue that can significantly damage customer trust is unethical conduct. BusinessWire underlines those businesses that engage in ethical misconduct lose their reputation and credibility,

leading to customers disassociating with the business (13). This can damage the company, particularly when legal action is taken.

2. Provide a detailed description and analysis of the automobile black boxes issue from the class lecture and homework.

Today, most new vehicles that are bought come with a black box, which records short events moments before, during and after an accident. They can also reveal data about the habits of the driver, such as where he/she frequents, the speed he/she drives and if he/she was wearing a safety belt during the accident (Thayer 150). However, it does not record audio or video information. Car black boxes appear quite a reasonable component in motor vehicles, bearing in mind that many people die from car accidents. However, some civil rights groups have voiced their concerns in relation to the privacy of these devices, claiming that they could be used to spy on car owners.

I believe black boxes do not create a privacy issue because the owners are aware that their cars contain these devices in the first place. Secondly, the black boxes only record certain information that is limited to the speed of the car, the safety of the passenger (if he was wearing the safety belt or not), breaking details and brief information before and after the accident. The box does not record the audio or video information, nor does it track the movement of the car, details that are personal. Therefore, since the information recorded is mainly on traffic and safety, and the owner is aware of these recordings, I restate that privacy issues are not touched.

Since this is a requirement from the National Highway Traffic Safety Administration (NHTSA), it implies that a person has no option but to accept the black box in his car. This, to some level, means that the person has given up some of his privacy right when buying the car.

From an ethical standpoint, there are a number of positives and negatives of these recordings for insurance companies, society and individuals. Insurance allows them to track and examine the actual driving conduct of their customers, and those with good driving behavior can be rewarded. Similarly, using the information collected by the black box, insurance companies can lower the premium they charge for safe customers and those who do not drive on a regular basis. Insurance companies will greatly benefit from the information since they can deal with drivers who give wrong information when they are involved in accidents.

At an individual level, the customer will benefit by paying a lower premium, increased safety from the sense of being watched by a “third eye,” and rapid response when an accident occurs. In addition, the information collected by the black box can help the driver argue his case in court if he is on the right side of the law. In addition, the information provided may help the customer to prevent accidents in the future. Similarly, tracking provided by these boxes prevents theft, which is beneficial to car

owners.

The society will also benefit through reduced accidents. As noted, many people die due to road accidents, but these deaths can be prevented by safer driving. In addition, the financial costs that arise from these accidents are billions (Thaye157). However, black boxes encourage drivers to drive more safely because they understand that they are being watched; this will reduce accidents.

Though these boxes are beneficial, they also come with some limitations. For insurance companies, they will have to incur additional costs to monitor these devices. For the drivers who drive carelessly, it will be a disadvantage as they will be forced to pay higher premiums. Secondly, the issue of privacy may also create a negative feeling when not well understood.

The challenges that black boxes bring at the global level arise from privacy issues and technology. The fact that data collected could fall into third-party hands without the permission of the owner is a serious problem that will continue to cause concerns to car owners (Thaye 159). At the present moment, there is no industry standard relating to the accuracy or reliability of black boxes, which creates a challenge on how this new technology will be adopted across other markets.

3. Define corporate governance; provide detailed descriptions and comparisons of the three corporate governance systems: Anglo-American, Communitarian, and Emerging Markets. Future Ethos and Social Responsibility:

Epstein explains that corporate governance entails directing and controlling a company. The board of directors is given the responsibility of governing the company (3). Epstein further notes that the role of shareholders in corporate governance is to appoint the board and the auditors. In duties of the board of directors include formulating the strategic aims of the organization, offering leadership, monitoring the management of the company and reporting to the shareholders on their stewardship. Accordingly, corporate governance can be defined as the way the board of directors controls the operations of a corporation through established values and objectives that have to be followed by the management of the company.

Though corporate governance requirements may vary from company to company, there are certain factors that have to be followed. Thus, it is possible to have a “model” of corporate governance in a given country or region, where certain attributes will distinguish the model from other countries or regions. Currently, researchers have categorized three models they include Anglo-American, Communitarian, and Emerging Markets (Epstein, 4).

The Anglo-American approach of corporate governance applies various commonly applied corporate governance systems that have been formulated in America, the UK, New Zealand, Canada, South Africa and Australia owing to the similarities they share in their legal systems (Epstein, 4). The main objective of corporate governance in these countries is to maximize shareholder value. As such, the legal system in these countries offers investors legal safeguards from expropriation by executives that include protection of minority shareholders' rights and legal preventions against the self-dealing of managers.

In this Anglo-American system, the board of directors is normally given the duty of monitoring and assessing the performance of top managers (Epstein 5). Due to this, boards are normally mainly comprised of independent directors who do not have financial interests in the company. Also, the Anglo-American system strongly stresses the need for transparency and disclosure within corporate governance; this includes financial reporting, board performance and corporate strategy (Zhao 8).

On the other hand, a communitarian corporate governance system is practiced in many European countries and Japan. As mentioned by Epstein, this system originated from Ramano-Germanic civil law codes that mainly depend on statutes and codes to control corporate governance (5). When compared with the Anglo-American system, the countries that use legal codes have established fewer laws to offer protection for shareholders' rights. Rather, corporate governance is majorly determined by the relationships between corporate and a broad range of stakeholders. Certainly, whereas the Anglo-American model can be viewed as a shareholder-oriented system, the communitarian model assumes a stakeholder-centered system of governance (Zhao 18).

Company operations are determined by different groups of stakeholders in the communication model, which includes employees, financial partners, customers, suppliers, and immediate society members. This is made possible due to the regular interactions between these stakeholders and the companies (Sun 9). For example, in Japan and Germany, companies and banks usually cross-invest in their customers and suppliers, forming conglomerates of companies. Accordingly, corporate governance is fixed in the multidimensional relationships between stakeholders and their corporations. These relationships play a vital role in carrying out business transactions (Zhao 19) and overseeing how disciplinary measures are implemented. More so, stakeholders have significant power on the supervisory board. For instance, in Germany, 50% of the supervisory board is demanded to be from employee representatives (Zhao 19).

The emerging market corporate governance model is an approach adopted by emerging economies like Brazil, China, India, Russia, Mexico and some Eastern European countries (Epstein 4). Owing to significant differences in legal practices, culture and language in these countries, there is considerable dynamism and uncertainty in the way corporate governance will evolve in these countries. Still, various clear patterns have emerged with time. To begin with, corporate governance in these emerging countries seems to focus on stakeholders, with leading families or government ownership, with significant government involvement in the economy (Epstein 4).

Epstein observes that in India, about 45% of net equity in Indian corporations is owned by families and company insiders (5). Similarly, the Chinese government continues to greatly control equity markets and disallows many corporations from trading their stocks on exchange markets for political reasons (Epstein 5). Also, the emerging market model is characterized by a lack of sound legal safeguards for shareholders and a low degree of transparency and disclosure. These differences with the Anglo-American model that has a single board of directors with a high degree of transparency and disclosure and that communitarian with a two-tier board structure.

The table below compares and contrasts the common characteristics of these three models.

Features/country	Anglo-American	Communitarian	Emerging markets
Countries	America, the UK, Canada, Australia, South Africa and New Zealand	Germany, Japan, Belgium and Scandinavia countries	Brazil, China, India, Russia, Mexico, Eastern European countries
Common characteristics	Shareholder centered	Stakeholder centered	Stakeholders centered
	Market-focused	Bank focused	Government/family-focused
	Unitary board system	Two-tier board system	Board system differs
	The boards mainly comprise of independent directors	Employees, founding families, and banks mainly make up the board	Few independent board members
	Common law legal system	Civil law legal system	Comparatively weak legal system
	The high degree of disclosure	Moderate degree of disclosure	Low degree of disclosure

4. How does a company work to promote ethical behavior, or does it emphasize something else?

Ethical behavior or conduct is central to the manner an individual and an organization should operate. Indeed, the ethical issue has gained a lot of concern and is important to the public, and every company today has some ethical code of conduct that has to be followed by its employees. It is clear that alongside public demand, present times will witness more and more companies focus on the conduct of their employees to adhere to regulations and respond to customers' concerns. Accordingly, there are some ways in which organizations can promote and advance ethics.

One way of promoting ethical conduct is through honesty and transparency. It has been noted that the manner in which a business undertakes its operations and how it conveys information to its customers could either promote or undermine ethics. For instance, a business may give false information regarding the quality of its products. Where this could work in the short term, such unethical behavior ends up being punished (Baxter et al., 108). A good example is Enron, whose managers and shareholders enjoyed great earnings for a few years, but in the end, its unethical conduct resulted in the collapse of the company. This case underlines that businesses have to maintain high levels of integrity, transparency and honesty, values that will help them entrench ethical behavior among their employees. Certainly, integrity breeds integrity, and the manner in which leaders approach ethics will determine the way employees conduct themselves.

One way in which an organization can promote ethical behavior is by communicating its expectation for ethical conduct as a written policy that each employee has to review and accept when they are hired and thereafter. A comprehensive policy ought to include instructions on reporting ethical misconduct and a detailed disciplinary policy. Written policies also include value statements, which act as the guiding principles. Developing value statements is an approach that managers may attempt to apply to enshrine ethical conduct and behavior into the organizational culture. These values have to be well thought –out to express the kind of image that the company seeks to display both to the employees and the general public.

According to Baxter et al., training also offers an organization a chance to teach its employees how to behave ethically (108). During the training sessions, managers will be in a position to discuss with the employees ethical situations that may arise and how to deal with them. In addition, the managers will underline the consequences of failing to act in an ethical way both at the individual and organizational levels. Effective training should also apply real case studies to assist employees in understanding how they can employ the values of the company of its principles contained in the code of conduct. Organizations should develop their training based on their value statements so that people can make the value statement a living document that will change them to better employees.

Organizations that have an open culture are said to be more ethical since openness promotes integrity, which is important in developing a culture of honesty. Accordingly, this is achieved by

creating a culture that reassures employee to raise their concerns and where ethical issues become part of daily conversation. Still, it is possible that some employees may be afraid of openly talking about ethical concerns; therefore definite whistle-blowing procedure is necessary to address such issues.

Lastly, organizations can promote ethics through a reward and punishment system. An employee who does something good that promotes values, for example, reporting a wrong, should be rewarded. This will encourage ethical conduct. Similarly, where an ethical violation is reported, disciplinary measures have to be taken to address the issue and a warning to other employees that such practice will be punished.

In summing up, it is important that a company focuses on promoting ethical behavior, this is more important than anything else since it can build or destroy the organization. There are many ways of doing this; we have only discussed a few.

5. Discuss the role of culture in building an effective ethos in an organization and provide examples ranging from WorldCom, Enron or Tyco in the reading or homework.

The extraordinary corporate scandals and bankruptcies that occurred in the past years acted as a strong reminder of operating unethically. The period of Enron witnessed some of the largest financial disasters of the past century (Lovik et al., 1). Indeed, apart from Enron going bankrupt, it also resulted in the collapse of the retirement fund of its employees. Just before Enron went under, it was listed among Fortune‘s ten companies that were most admired (Lovik et al. 1). The company has a great vision with admirable corporate values (that included honesty and sincerity). Sadly, this was undermined by a poor strategy and unethical conduct.

Shortly after the Enron scandal, other corporate giants like WorldCom, Adelphia, Tyco, Parmalat, Global Crossing and others were found to have been involved in fraudulent activities. Lovik et al. note that the Sarbanes-Oxley Act (SOX) law of 2002 ended up being the most important securities legislation passed since 1930, as it called for the top managers not just to be role models in creating competitive strategy but also to be mentors by acting in an ethical manner (1). This way, they are able to strengthen ethics, values and beliefs as they build leadership.

Strategy management is necessary for corporate in a highly competitive business environment for companies to survive and possibly thrive in the background of continuous change. David Childress, in his article “Ethics as a Strategy,” points out that ethics was put under scrutiny as a basic element of business strategy (Childress 35). The Enron era corporate scandals and the passing of the SOX act brought an additional challenge to organizations to protect their reputations and manage

stakeholders 'expectations. Accordingly, many organizations have realized that ethics programs can improve corporate governance. However, formulating and implementing an ethical program that positively impacts an organization goes past slogans and public relations; it requires a strong commitment from the top managers, and the program has to infuse the organizational culture.

Without a strong culture that underlines the importance of ethics, there is a possibility that integrity can be compromised. Lovik et al. underscore that many companies appear not able to implement successful ethics and compliance programs (2). This largely seems to occur due to a lack of adequate understanding of the significance of culture and the manner in which culture can result in risks.

Creating an ethical culture is attained by the top management, other managers at lower levels and all the employees within the organization adhering to the ethical values guiding the organization. It has been observed that companies are going beyond compliance because culture advances compliance (Reason 51). There are many laws governing corporations, but the assumption that laws will make companies behave ethically is wrong. Indeed, nearly all regulatory bodies have stated that apart from compliance, companies have to follow ethical standards and have a corporate culture that promotes accountability and ethical operations.

Organizational culture is an important element that impacts the behaviors and attitudes of corporate managers. Enron, WorldCom and other companies that were involved in scandals are examples underlining that controls and policies are needed but are not enough. The SOX regulations under part 404 have stressed the need to have a strong culture as a way of cultivating ethics by stating that managers have to lead by example and promote integrity, and they have to know the pressure points that result in unethical conduct. The SOX regulations further require that employees are held responsible for their actions and also have a chance to raise their concerns regarding management.

When the Securities and Exchange (SEC) settled an ethical issue that involved Ahold Public, the agency noted the corporation's exemplary action of proactive response when an illegal operation occurred, and the management of Ahold Public reported the issue to the SEC (Reason, 56). Accordingly, the company was spared a financial penalty. This case underlined how an organization, and in particular the top management can cultivate a culture that promotes ethics, which is important in effective ethos in an organization. Certainly, as asserted by Harvey Pitt, the former SEC chairman, implementing effective policies and procedures is necessary, though not adequate (Lovik et al., 4). An organization should also have the right leaders who are just, transparent and honest. At the same time, these leaders must walk the walk to cultivate a strong culture that will be copied by their employees.

Past history of companies like Enron, Tyco and WorldCom has demonstrated the price of unethical conduct. Malpractices of these companies led to big losses for employees and shareholders. When Johnson & Johnson was faced with the Tylenol crisis, it quickly responded in a way that reflected its shared values and principles that were deeply engrained in its culture (Lovik et al., 6). This example restates the importance of organizational culture in building an ethical organization.

6. Define and describe the five key characteristics that set apart companies with an ethical culture.

Some studies have established that ethical cultures are founded on an arrangement among processes, policies and formal structures and consistency of the top manager and informal acknowledgment of heroes, rituals, and languages that motivate and inspire employees to behave in a given manner. Below are five key characteristics of ethical culture.

1) Vision and mission-driven: Ethical companies are usually driven by the need to achieve something that is more solid than profits (Ardichvili et al., 446) in time through the mission statement of the core values charter. When the stated values are fully supported by the management and appreciated by employees, the organization turns out to be a community that is united by common goals and objectives and not merely co-existing to earn profits. This can result in considerable benefits by enhancing employee involvement and creating better relationships with the community. As explained by Ardichvili et al., any organization can formulate a value charter; however, an ethical organization lives by its value system (446). It communicates the mission statement to each employee and makes sure that it is adhered to. An ethical organization will implement a code of conduct that advances its mission (Ardichvili et al., 448). This code acts as the guiding framework for every employee as he implements the organization's mission.

2) Effective leadership: Ethical companies are defined by their leaders how to have to show ethical practices in all the situations they go through, particularly when it comes to decision-making processes. Sometimes, leaders are faced with a hard decision to make between making profits and operating ethically. Managers who stick to ethically correct operations rather than being driven by profits have managed to foster an ethical culture in their organizations. When the top leadership is solid and consistent, the rest of the employees learn to operate within limits. Leaders also take responsibility for championing the need to follow ethics.

3) Process integrity: An ethical business shows integrity in all its operations, as it follows laws and regulations at all levels. Similarly, it treats employees with integrity, fairly and with respect through effective communication. Such a company also shows fair dealings with suppliers and customers through competitive pricing, quality, and timely payment. However, managers have to continuously review its integrity through internal processes to strengthen it where necessary.

4) Stakeholder balance: ethical businesses can balance the requirements of all stakeholders. As mentioned by Ardichvili et al., though shareholders are the owners and thereby entitled to financial benefits, other stakeholders have to be considered (448). Organizations have the responsibility to treat their many stakeholders with respect and fairness. Focusing on one stakeholder for too long could result in a situation of imbalance and unethical conduct. Therefore, stakeholder balance is an important attribute of ethical culture.

5) Long-term perspective: organizations that have a long-term viewpoint are seen as more ethical. Long-term perspective should not just relate to making profits, but also the corporation's position in the community and the entire society (Ardichvili et al., 448). Businesses have to self-reflect by asking questions, being open and transparent and having a specific direction they want to follow. The employees must be involved in the formulation of long-term plans, so they are part of these plans.

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