

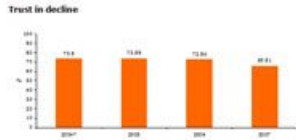
Trust, the bedrock of future SA business success



By [Craig Kolb](#)

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At least part of the reason for the success of Western economies in the later stages of capitalism could be attributed to the accumulated trust in institutions and a democratic climate which guaranteed property rights (Hou and Hou, 2002).



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Institutions and property rights rely on trust to function. You don't have to know the individuals in an organisation personally in order to conduct business with them; there are institutional constraints and laws you can trust to protect you - a luxury often taken for granted and increasingly under threat in the West. Many non-western countries still require the existence of personal relationships before business deals can be concluded due to the climate of fear and mistrust (Hitchings and Weir, 2006).

Trust yields efficiencies

Restricting trust to the personal level restricts large scale economic development. Trust yields efficiencies in conducting business with stakeholders - as soon as trust fails and suspicion becomes the order of the day, large amounts of resources are spent trying to deal with the lack of trust - the consequence is that efficiency drops.

Even China, whose legal and social environment typically did not allow trust to exist outside of personal networks, has been forced to facilitate the use of contracts in the last decade in order to allow economic growth. Previously personal relationships were your only insurance that the other party would do as expected (Hitchings and Weir, 2006).

Given the importance of trust to the economy, Ask Afrika's Trust Barometer aims to measure both trust and reputation as key business assets. Its main differentiator is the focus on business leader opinion rather than consumer opinion, providing a different perspective on reputational and trust capital.

Key findings of the 2007 Trust Barometer survey

Overall, South African executives' trust in fellow corporates has shown a statistically significant decline over the 2005 to 2007 period. Reputation, which often mirrors trust, also shows a decline over this period.

Trust in decline

Drivers of trust and reputation

What factors are driving the decline in trust and reputation?

According to Richard Adamski, who conducted the analysis, the consistency between what a company says and what it does was key to trust in 2007. It is the most obvious form of failure in a stakeholder relationship.

Perhaps even more concerning is that the next most important driver is the perception that there is a lack of the necessary skill and competence to actually be trustworthy. This means that no matter how good the intentions, companies are failing to be trustworthy due a lack of skilled staff, possibly a consequence of the South African brain drain.

In the area of reputation, the major drivers in 2007 were quality of management and sustainability.

Political connections and trust in BEE

This year's survey included, for the first time, a measure of the reputation of BEE companies (defined as companies with majority black ownership and black management). The most important BEE reputation drivers included quality of management, financial soundness and sustainability. Interestingly, ANC connections did not seem to have much importance in driving reputation.

The black-owned company with the highest reputation ratings was Mvelaphanda, followed by African Rainbow Minerals and Kagiso.

The financial impact of trust and reputation

Reputation and trust have real world meaning; they relate to future financial performance. While past financial performance explains much of the variations in reputation ratings (and it would be reasonable to assume trust ratings as well) there is a residual component which cannot be explained by past financial performance (Roberts and Dowling, 2002). This residual component correlates with future financial performance, and so is to some extent predictive of future success.

As a result it is imperative that South African companies work to turn the decline in trust and reputation around. Working to maintain trust and reputation will provide the bedrock on which to build future business success in South Africa.

References

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*2004 is not directly comparable to other years, due to a different methodological approach. An approximation has been made to make 2004 as close to comparable as possible.

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