

Trust: the symbolic capital of entrepreneurs-managers

Reconciling financial performance objectives (tangible assets) with corporate social performance (extended intangible assets)

Author's Biography:

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He used to work as a management consultant for CIMAD-IBM at SWIFT, an international financial institution in Brussels. He also advised the World Bank in Indonesia on ‘corruption in corporations’ and was Financial Advisor for the Ministry of Finance in Indonesia, on which behalf he restructured the debt of a number of Indonesian corporations, and is an Associated Director of the Belgian Bank Academy. He founded C-consulting, an Internet Solutions consultancy company in Indonesia, ten years ago, with offices in Australia, Belgium and Singapore.

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Abstract (<500 words):

My hypothesis is that maximizing the value of a company implies a focus on both financial and non-financial targets, rather than the pure maximization of profits. To do so, a good entrepreneur will need not only to lead and manage the different stakes involved, but also to satisfy the objectives of the various stakeholders, and that will require a high level of trust. This trust functions as the lubricant in any management interaction or business transaction. It enables and facilitates cooperation to take place in an effective and efficient manner and it decreases the transaction costs involved with these business transactions.

Reconciling economic, legal and moral standards can only be simultaneously 'satisfied' or achieved when the company's vision incorporates values that go beyond its financial objectives, enticing shareholders, employees, customers and the community at large. By reconciling both corporate financial performance (i.e. the tangible assets) and corporate social performance (what I describe as 'extended' intangible assets) and other 'soft' assets, a business leader increases the total value of the company. Consequently, an entrepreneur-leader does not interpret the non-financial objectives as an unwanted external (i.e. non-shareholders') barrier but "incorporates" or internalizes the soft (social & moral) targets into the *value standards* of the company. By doing so, he not only reconciles the apparently contradictory objectives, but also energizes other non-tangible or 'invisible' forces in the company which can further enhance its competitive ability and advantage.



1. Leadership & trust: Intangible assets

We face a basic dilemma: dramatic economic and business changes are making trust both more important and more elusive. Trust is necessary in the new marketplace. You can't compete without it. Yet a competitive knowledge-based economy that makes trust even more important is also making it more difficult to sustain.

Trust is an enabler for organizational cooperation and it also facilitates interaction between stakeholders and business partners while decreasing the transaction costs of these interactions. Trust is inherently relational, requiring a trustor who gives trust to a trustee¹. I have defined trust as an attitude or disposition to behave and respond in certain ways, namely to accept certain risks or harm from another person or agent on the basis of a belief that the other does not intend to harm to one², and that the other party will reciprocate and keep the (implicit) promise³. Trust is the belief that those on whom we depend will meet our expectations, though being aware that in our position of vulnerability we can be harmed by the entrusted party. Trust is an attitude of vulnerability. This vulnerability is usually not unconditional, unless in the case of 'moral or categorical trust'. The notion of trust implicitly or explicitly refers to the principle of reciprocity without which any social and business interaction would fade. Trust is a byproduct of shared understanding, goals and social responsibility⁴, as it also implies a calculation of risk⁵. In other words, the notion of trust reflects an empathetic goodwill inciting vulnerability, and certain expectations that the trusted party will reciprocate⁶.

Trust is a way to deal with uncertainty⁷. Trust is expressing an expecting of (an affective - normative disposition) and an expecting that (a cognitive - predictive disposition). Obviously

¹ McEVILY, B.; PERRONE, V. & A. ZAHEER, "Trust as an Organizing Principle", *Organizational Science*, Vol 14, n01, Jan-Febr 2003, p93

² VERHEZEN, Peter, "Omkoping of gift? Vertrouwen en vrijgevigheid", in VANDEVELDE, Toon (ed), *Over vertrouwen en bedrijf*, Leuven, Acco, 2000, p133-142

³ HUFF, Lenard & Lane KELLEY, "Levels of Organizational Trust in Individualist versus Collective Societies: a 7 nation Study", *Organization Science*, vol 14, no 1, Jan – February 2003, p82: I would agree with the authors' interpretation of trust in an organizational environment as "the willingness of a party (the trustor) to be vulnerable to the actions of another party (the trustee) based on the expectation that the trustee will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party." Both an expectation of the partners' trustworthiness (a virtue) and the behavioural intention to act on that expectation, must be present for trust to exist. Trust implies uncertainty; it involves both 'confidence' in the partner's ability and faith in the partner's benign intentions.

⁴ BAIER, Annette, "Trust and antitrust", *Ethics* 96, 1986, pp231-260

⁵ HARDIN, Russell, "Institutional commitment: values or incentives?" in BEN-NER Avner & Louis PUTTERMAN (Eds), *Economics, Values and Organization*, Cambridge, Cambridge University Press, 1998, p419-434; and HARDIN, Russell, "Trustworthiness", *Ethics* 107, October 1996, pp26-42

⁶ HUFF, L. & L. KELLEY, *o.c.*, p82-83. While collectivists place a premium on relationships, certain aspects of collectivist cultures could inhibit trust formation. One aspect may be collectivists' sharp distinction between members of in-groups and out-groups. The quality of social relationships between individuals in collectivist cultures depends heavily on whether they belong to the same in-group. More than individualist cultures, collectivist cultures encourage individuals to trust in-groups more than out-groups. I have called this "particularized" trust



successful leaders imply a high-level of economically *effectiveness* as well as radiating an emotional trust and expressing *moral leadership*⁸.

Warren Bennis is convinced that trust is the “emotional glue that binds followers and leaders together. The accumulation of trust is a measure of legitimacy of leadership. It cannot be mandated or purchased; it must be earned. Trust is the basic ingredient of all organizations, the lubrication that maintains the organization.”⁹ Organizational trust effects relations through structuring and mobilizing the individuals within an organization¹⁰.

Why would or should an entrepreneur or business leader put so much emphasis on gaining and maintaining trust? We acknowledge some factors determining the threshold of trust and mistrust. Since trust lubricates and glues business relationships, a manager focuses on cultivating trust because not having it:

- ❑ increases the risk of organizational failure;
- ❑ increases the risk of possible alienating other stakeholders¹¹ such as suppliers, community and most important losing the loyalty of trusted clients;
- ❑ increases the risk of possible litigation by unsatisfied and distrusting stakeholders;
- ❑ makes it hard to pursue the organizational and company’s mission and targets;
- ❑ significantly increases the monitoring and controlling costs.

Trust – a belief that those to whom we have depended on to meet our expectations – is founded on a few basic imperatives in business: (1) achieving results, (2) acting with integrity and (3) demonstrating concern¹². Meeting these imperatives will gain or break the reputation of trust of the entrepreneur or executive manager¹³. Indeed, a good leader reflects a belief in his competence and the ability to produce results. The impact of integrity – i.e. honesty in one’s words and consistency in one’s actions - on trust is particularly important in developing relationships and networks with employees and other stakeholders. It is assumed that a CEO or entrepreneur is entrusted to understand the concerns and to act in ways that meet or at least do not conflict with one’s (or stakeholders’) needs. Achieving predicable results implies a strategic plan, an operating plan, a human resource plan and a customer satisfaction plan. To demonstrate

⁸ CIULLA, Joanne, “Trust and the future of leadership”, in BOWIE, Norman (Ed), Business Ethics, Oxford, Blackwell, 2002, p345

⁹ BENNIS, W & B. NANUS, Leaders: the strategies for taking charge, New York, Harper-Collings, 1985, p153

¹⁰ McEVILY, B.; PERRONE, V. & A. ZAHEER, o.c., p94

¹¹ The stakeholders a company either voluntary or involuntary are individuals and constituencies that contribute to its wealth – creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.

¹² BRUCE, Robert, Trust in Balance. Building successful organizations on results, integrity and results, San Francisco, Jossey-Bass Publ, 1997, pXVI

¹³ The situation where the risk involved of trusting a particular person depends on ‘trust to do what?’ Another important factor determining to what extent we should trust depends on the person to be trusted which refers to the person’s history sometimes briefly called the credible reputation of an individual or organization. Finally the person’s temperament and own history who trust the other will influence the level of trust given, the threshold to trust. Does one only trust similar persons resulting in conditional particularized trust, or does one trust persons beyond one own company, group, religion,



integrity a leader needs to define a clear purpose, to confront reality, to have an open agenda and to follow through in a consistent manner. Critical in demonstrating concern implies to define an identity in an organization that counterbalances individual or team perspective, having confidence in people's ability, to establish formal and informal processes to ensure that people have sufficient contact with each other and an understanding of each others' perspectives, and finally to create organizational approaches to recognize and reward the contribution of people in different groups and roles.

Several trends are converging to make trust a key competitive force for organizations. Some of the most important organizational responses contain¹⁴:

- Empowerment of individuals and teams;
- Radically redesigned business processes;
- Near total business-unit autonomy and power
- Active collaboration across teams and groups
- Emergence of global alliances among firms
- Enhanced organizational learning

Leaders must personally exhibit trustworthy and trusting behavior¹⁵. At the same time, they must direct their attention to the architecture (the structures and procedures that formally influence how a group operates)¹⁶ and the culture (the informal values, rules, and operating principles)¹⁷ of organizational life. In more socio-philosophical terminology, I could argue that we must look to one's preparedness to refrain from taking advantage of another's vulnerability and the consistency of one's behavior (i.e. defined as 'basic trust'), the appropriateness of one's competences ('guarded trust'), and one's readiness to be open regarding knowledge of one's self ('extended trust')¹⁸. Trust reflects a) a minimum credibility, believing that the other party has its required expertise to perform the job effectively and reliably, and b) some benevolence, indicating

¹⁴ BRUCE, Robert, Trust in Balance. Building successful organizations on results, integrity and results , o.c., p6

¹⁵ BRUCE, Robert, o.c., p6-12: Balancing Leadership demands:

- Personally modeling trustworthy behavior
- Building trustworthy leadership teams
- Developing trust-sustaining organizational practices.

¹⁶ ibidem, p123-136

Developing an architecture of trust:

- Promoting aggressive business targets
- Developing aligned performance accountabilities
- Building high-ownership organizational structures
- Ensuring superior talent
- Maintaining systems to share information
- Instituting a few rigorous strategic controls.

¹⁷ ibidem, p 139-151

Developing a culture of trust:

- Developing a common vision and shared view of competitive realities
- Living by genuinely felt values and operating principles
- Building familiarity across levels and groups
- Encouraging a culture of risk taking and experimentation
- Making visible a few powerful symbols of trust

¹⁸ BRENKERT, George G. "Trust, Morality, and International Business" in LANE Christel & Reinhard RACHMANN (Eds)



that the intentions and motives of the trustee are beneficial¹⁹. All these conditions may restrict action on behalf of one's self-interest.

It remains a challenging job of any leader to manage the dilemmas of trust reflecting the possible tradeoffs among the three trust imperatives (i.e. integrity, concern, results). For example, delivering profits in a highly competitive business environment is a challenging in itself. To do so in a way that demonstrates concern is even more difficult. Thus, achieving business results while demonstrating concern can be daunting task. Both are required to sustain high performance and trust. In addition, integrity – expressing the degree of consistency or coherence in a firm's strategy or a leader's behavior – is likely one of the most necessary characteristics to sustain trust in the leadership. As with strategic mistakes, ethical violations can erode trust within an organization or team. Such pressure to keep integrity is particularly true for those in leadership positions. Leaders – as all executives in an organization – should be accounted responsible for their actions. Such principles of accountability could enhance or destroy the trust in the leader. One of the famous examples of a CEO who notoriously gained an enormous level of trust is James Burke, ex CEO of Johnson & Johnson in dealing with the Tylenol cases.

Trust is an asset, and could be even interpreted as a form of capital. In that sense, I would define trust as symbolic capital rather than social capital²⁰. Trust is a resource on which to draw and it provides no assurance of business success at all. In other words trust is an intangible asset – as an expression of symbolic capital - which has an important influence on the organization's 'value'²¹.

II. Intangible assets and the value of an organization

As trust is defined as a lubricant in any social and organizational relationship and interaction, this 'symbolic capital' will most likely have a positive influence on the organization's functioning and thus its value. To what extent now can trust be a measurable tool to positively affect the value of

¹⁹ JASFAR, F., "Trust based in Relationship Marketing", *Business and Entrepreneurship Review*, Vol 4, no 1, April 2003, p33

²⁰ BOURDIEU, Pierre, *Esquisse d'une théorie de la pratique*, Paris, Editions de Seuil, (1972) 2000, 429p & BOURDIEU, Pierre, *Raisons Pratiques. Sur la théorie de l'action*, Paris, Editions de Seuil, 1994, 245p. I have been highly inspired by Bourdieu's analysis of social and symbolic capital. In *Mediations Pascaliennes*, Bourdieu describes respectability and recognition as symbolic capital. I would interpret 'trust' as the binding factor of gaining respectability and recognition as part of symbolic capital as well.

²¹ ARROW, Kenneth J., *The limits of organization*, New York, Norton & Comp, 1974, p23: "Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people's word. Unfortunately this is not a commodity which can be bought very easily. If you have to buy it, you already have some doubts about what you've bought. Trust and similar values, loyalty or truth-telling, are examples of what the economist would call "externalities". They are goods, they are commodities; they have real, practical, economic value; they increase the efficiency of the system, enable you to produce more goods or more of whatever values you hold in high esteem. But



the company? Trust is expected to be reciprocated, this form of “symbolic capital”²² is expected to provide a return on investment. The art of trusing somebody and willing to accept the uncertainty and potential harm or failure, exactly like an investment²³. Symbolic acts assure acts of recognition and acknowledgement, as trust acknowledges the other person to reciprocate the given trust and make the investment worth it. Trusting someone actually creates an acknowledgement of debt vis-à-vis the donor or trustor, a sentiment of gratitude to the generous donor. This sentiment can be translated into a credit of the trustor, who likely will benefit (or fail) from his act of trusting.

My hypothesis is that there is often a direct and immediate relationship between the different components of the Intangible Assets (or Intellectual Capital) - and particularly trust - on the one hand, and economic-financial performances on the other hand. Moreover, I would argue that a trusted leadership is one of the most ‘intangible’²⁴ but valuable assets of an organization. Such entrusted leadership can be translated in improved Social Corporate Responsibility and improved management decisions by taking these intangible and often ‘soft’ assets into account of evaluation.

1. Intangible assets:

In a way it is easier to measure the lack of trust as quite a number of recent unethical business cases have unfortunately proven us. It is quite difficult to directly quantify the level of trust as a form of symbolic capital, unless if you would refer to public companies who reflect a high level of trust or distrust in their market valuation. Such market valuation refers to trust as when the financial expectations are met, but also to the trust in the ability of the management, the leadership of the company. Not focusing to build trust beyond purely financial objectives will be detrimental to most companies in the longer run. Trusted leadership is the most obvious expression of such an intangible asset.

A Business or Government organization not only transmits input into output through a process of knowledge, it also creates or diminishes knowledge. Most management research and consultancy services have been focusing on how to increase the input-output ratio, often called efficiency and effectiveness improvement, but have often ignored the explicit value of knowledge

²² BOURDIEU, P., Raisons Pratiques, o.c., p116 : « Le capital symbolique, c'est n'importe quelle propriété (n importe quelle espèce de capital, économique, culturel, social) lorsqu'elle perçue par des agents sociaux dont les catégories de perception sont telles qu'ils sont en mesure de la connaître (de l'apercevoir) et de reconnaître, de lui accorder valeur. »

²³ It is not without reason that gifts are so popular among relation-based entrepreneurs and CEOs because they add social capital to the organization or the individual donor. The accumulation of SC will result in some symbolic (face, reputation, responsibility), social (network, social prestige within community) or economic profit (real material or monetary gains).

²⁴ I define an ‘intangible’ asset such as trust as a non-touchable physical or financial asset. Obviously trust is only one particular form of an intangible asset, and can be more precisely defined as symbolic capital as ‘intangible assets’ or



processing and knowledge creation within an organization. Such processes and creation will require sustained levels of trust. Moreover, trust will be considered as part of Intangible Assets. Intellectual or Intangible Capital is considered as the resource that creates invisible or intangible sources of competitive advantages such as networks and organizational systems.

'Intangible' because until recently it was thought that such assets – though quite indispensable in nature for any corporation – could not be quantified or measured. That may change if we find some direct or indirect approach to measure intangible assets such as 'trusted leadership' (an expression of 'symbolic capital') or 'social capital' (networks), or customer capital.

The value of any organization is constituted of (1) the Physical Tangible and Financial Capital which one finds on the balance sheet of a company and (2) the Intangible assets of a company which are often described as "goodwill" on the balance sheet.

A company's Intellectual Capital²⁵, Intangible Assets or Knowledge base is usually determined as the sum of its *human capital* (talent), *structural capital* (intellectual properties, methodologies, software, documents, and other knowledge artefacts), and *customer capital* (client relationships). These intangible assets are to a high extent related to relationships with the customers²⁶ and suppliers, and with the employees and partners of the company. Those relationships explicitly refer to and rely on *trust* between the interacting parties.

Another way of focusing on intangible assets or capital is analyzing the organizational capabilities²⁷, again 'facilitated' by the notion of trust.

Let us consider an example to illustrate this statement. When Netscape went public in 1995, it was a \$17 million company with fifty employees. However, after only the first day of trading, the Stock Market valued Netscape at \$3 billion. What were investors buying? Certainly not fifty telephones and the company's inventory of software. In fact, what investors 'bought' were the people who had built Netscape - their knowledge, skills, ideas and talents. They were also

²⁵ Intellectual Capital is generally speaking – though conceptually imprecise and thus not really correct - the difference between *market value* and *book value*.

²⁶ Interesting to note is the acceptance of 'Social Capital' as a concept that refers to the personal and social relationships one has or is in, and the embeddedness within organizations or communities. In a way "Social Capital", as it is defined by the OECD, is "networks together with shared norms, values and understanding that facilitate cooperation within or among groups." Such 'social' networks can be closely related to business and customer networks, which are part of IC. Networks encourage people to operate informally, outside the rule of law. Relationships therefore depend much more on cooperation than on control. Cooperation, in turn, depends on trust. This is true not just intra-murally but also in interactions between businesses.

²⁷ ULRICH, Dave & Norm SMALLWOOD, "Capitalizing on Capabilities", *Harvard Business Review*, Boston, June 2004, pp119-127. The authors developed an interesting 'Organizational Capability' audit where the question often indicate to the trusting factor. The major 11 organizational capabilities here recognized are: talent, speed, shared mind, set



investing in the company's demonstrated ability to innovate, create, and bring to market a product that makes the Internet accessible to the public at large. In other words, they were paying an enormous premium for Netscape's Intellectual Capital.

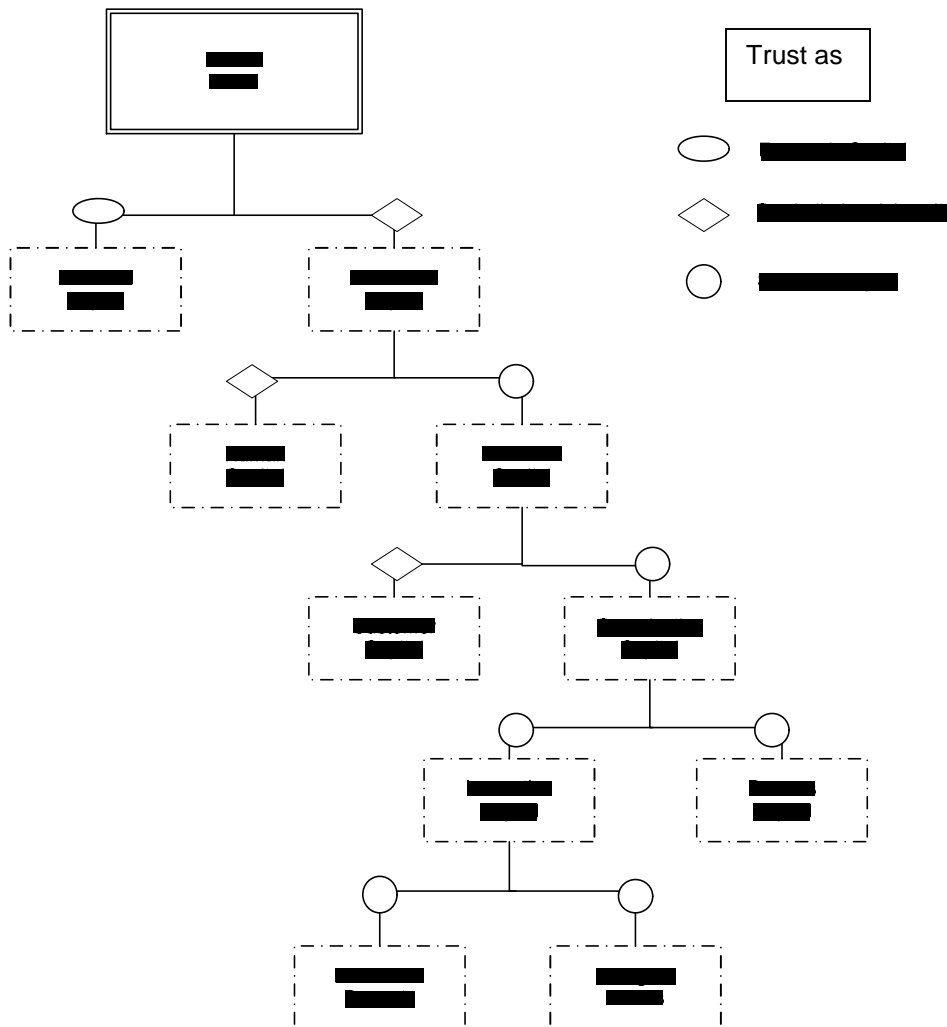
Intellectual Capital has been conceptualized from numerous disciplines. Accountants are interested in how to measure it on the balance sheet, information technologists want to codify it on systems, sociologists want to balance power with it, psychologists want to develop minds because of it, human resource managers want to calculate an ROI on it, and training and development officers want to make sure that they can build it.

2. Measuring Intangible Assets or Intellectual Capital?

One of the first companies in the world that actually tried to quantify their non physical assets in coherent manner was a Swedish insurance and finance company, Skandia. Leif Edvinsson, their Intellectual Director, not only managed to quantify SKandia's invisible or intangible assets²⁸ – Intellectual Capital - but also contributed to the increased awareness of the concept of Intellectual Capital (or 'Intangible Capital' as I prefer to call it) in Europe. I adapted this Skandia's Intellectual Scheme and added my perception on how Trust and different forms of capital influence the different components of Intellectual Capital.

²⁸ EDVINSSON, Leif, Corporate Lonitude: navigating the knowledge economy, Bookhouse, 2002, p24. I like to draw the attention that in Edvinsson's definition 'intangible assets' is a residu factor or variable, and part of Intellectual Capital





Economic capital will need some form of ‘particularized’ trust²⁹, whereas symbolic and social capital implies more often a form of ‘generalized’ trust³⁰. Structural capital assumes a minimum level of trust (either generalized or particularized) to glue the different ‘assets’ together, but paradoxically, with an increase of structured capital, one will need to rely less on trust since it is better structured and clearly defined. The uncertainty has decreased within structured capital, as consequence the need for trust as binding factor has decreased as well.

An alternative approach is offered by the professor Lev Baruch from Stern Business School in New York who advocates the calculation of a company’s comprehensive value. This value is the

²⁹ I here define ‘*particularized trust*’ as “having faith in people like ourselves”. Particularized trust restricts the size of our moral community to people we know (people like ourselves) or who we expect to react in a similar way like ourselves. Similarly, *strategic trust* reflects our expectations about how people will behave, and is instrumental in lowering transaction costs in social interaction.

³⁰ Social norms can be related to the concept of ‘*generalized trust*’ which is the belief that most people can be trusted, and is largely (though not entirely) based upon moralistic trust, because of a similar foundation. Generalized trust is the perception that most people are part of your community. Like our language, the most obvious tool of communication, we learn (or fail to learn) generalized trust from our parents. The central idea distinguishing generalized from particularized



net value of its physical and financial assets (derived from the balance sheet) plus the missing piece – the value of its intangible assets³¹. Then you compare this comprehensive value with the company's market value³². It is also worth mentioning that intangible capital does not necessarily directly effect financial performances. Indeed, these intangible assets often work indirectly through complex chains of cause and effect³³.

AREOPA, another international company with European roots, has developed a model for identifying and quantifying intangibles as components of intellectual capital (IC)³⁴. This model serves to evaluate a company's return on all the capital it employs, helping to explain the difference between book and market value. It also provides guidance as to how and where management should put its attention to grow the organisation's overall IC. AREOPA positions intellectual capital calculation as a management tool and not as a simple financial calculation of the intangible assets of the organization and thus explaining the difference between book value and market value. Management wants to understand the value of the intellectual capital of the organization. By giving a monetary value to the intellectual capital, management starts to understand the value and the impact of 'intangible assets'.

³¹ BARUCH, Lev, "Sharpening the Intangible Assets", Harvard Business Review, Boston, June 2004, p114: He gives an example: "...if the annual operating earnings of the enterprise total USD 1,000, its physical assets are valued at USD 7,500, and the average return, or yield, on physical assets in the industry is 10%, then the normal contribution of physical assets to earnings is USD 750 (10% of 7,500). Assuming no financial assets, the residual earnings of USD 250 reflect the contribution of the enabling intangibles – what I call intangible-driven earnings. Intangible capital is then calculated by computing the present value of the forecasted stream of intangible-driven earnings. The detailed estimates and procedures underlying the computation of intangible capital are, of course, more involved than the simple process described in this stylized example. Among other things, enterprise performance is estimated from past and forecasted earnings to fully reflect the future contribution of intangibles, and historical asset values are converted to current values."

³² Ibidem, p114: In GE's case, the ratio of market-to-comprehensive value at the beginning of 2003 was 0.79, meaning that GE, according to this methodology was undervalued with 21%. Pfizer, by contrast, was overvalued by 29%, Exxon fairly valued, and Altria undervalued by 45%.

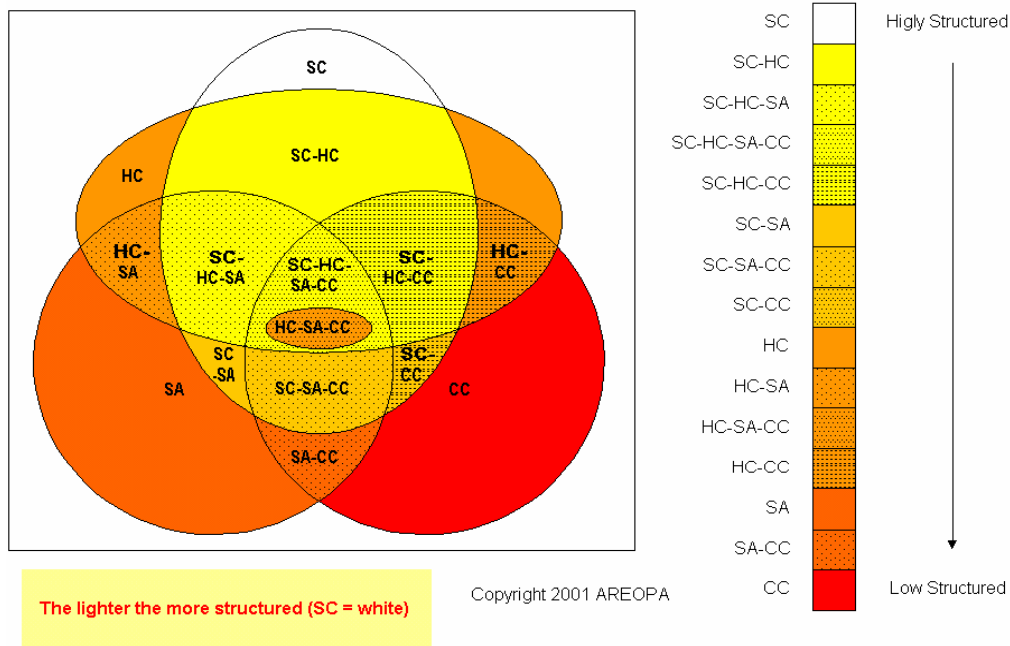
³³ KAPLAN, R. & D. NORTON, "Measuring the Strategic Readiness of Intangible Assets", Harvard Business Review, Boston, February 2004, p54-55. Kaplan and Norton distinguish three major components of Intangible Assets: Human Capital (the skills, talent and the knowledge that a company's employees possess), Information Capital (The company's databases, information systems, networks, and technology infrastructure), and organizational capital (the company's culture, its leadership, how aligned its people are with strategic goals, and employees' ability to share knowledge).

³⁴ AREOPA, an European company with consulting offices throughout the world, is one of those organizations who not only applied the concept of Intellectual Capital to its own organization, but also developed a unique methodology to measure and quantify Intellectual Capital.



AREOPA's 4-Leaf Model[®] identifies the sources of added value and competitive advantage in businesses and in particular of virtual organizations - collaborative networks of otherwise independent economic entities - that build their business models around the internet using minimal financial assets.

IC - 4 leaf model - 15 categories



The four base classes in AREOPA's Intellectual Capital measurement approach are Human, Customer and Structural Capital, plus Strategic Alliance Capital.

Human Capital, analyzed as intangibles, must be allowed to develop and flourish. A leader will communicate the company's conviction and will scout for talent to engage others through shared meaning or a common vision. A leader will also structuralize processes and organizational 'culture' - called *Organizational Capital* - in order to increase the effectiveness and efficiency of the company's financial and social targets. Finally, focusing on increasing the loyalty of customers or its customers' base is a *condition sine qua non*. However, a healthy *Customer Capital* base also refers to networks (of anybody involved with the company) which I would describe as *social capital*, here defined as an "extended tangible". In that sense, the community at large (including social and environmental values) can be interpreted as a customer *sensu largo* with whom a leader needs to deal with. The *Strategic Alliance Capital* gives recognition to the fact that partnerships, alliances and networks are increasingly important factors of business in the New Knowledge Economy. The strength of the alliance or network significantly impacts the leverage any one company may have in its market, and therefore affects its value. Think of how

Dell Computers made it big by leveraging on its suppliers such as Intel, HP, etc. And Cisco has built its entire business model around the internet, and heavily relies on outsourced service providers to full fill its business cycles from ordering over manufacturing to delivery and billing. Although its partners may not take the front stage, they are nevertheless crucial in assuring the quality that Cisco sells to its customers.

These four base classes embrace trust as the lubricant for these relationships and transactions among these different stakeholders (employees, suppliers, customers, partners etc).

When physical assets have essentially become commodities, the benefits of intangible capital lubricated by the notion of trust, are valuable means to create a complete edge or to escape intensifying competitive pressure. Yet, the information deficiencies surrounding intellectual or intangible capital cause serious share price distortions according to Lev Baruch³⁵, and misallocation of corporate resources that could hinder performance and growth.

3. Trust in stakeholders relationships and Valuation of companies

Entrepreneurial but also corporate leadership of companies emphasize the importance of convincing different stakeholders - not just the shareholders - that this corporation can be trusted. They go in great length to enforce the focus on their partnerships with the different stakeholders, to show that they are trustworthy parties. Such trust is reflected in the reputation of the company, most likely the asset which invigorates and glues most aspects of (in)tangible assets of a corporation. Once the reputation of and thus, the trust in a corporation is tainted, the value of the corporation nosedives. Every manager or leader knows the perilous impact of the loss of trust. Again, the more we understand how intangible assets are formed and measured, the more we may take into account these variables when we make decisions, affecting the trust in and of the company.

³⁵ BARUCH, Lev, o.c., p116: He claims that the FASB has "recently stipulated that acquired intangibles be presented in financial reports at fair market value. The international accounting standards, which will become mandatory in Europe next



III. Reconciling Corporate Financial and Corporate Social Performance

What is the relationship between creating trust in the leadership of a company and its corporate social performance? How can a possible reconciliation or acknowledgement between incorporating corporate social responsibility and corporate financial results positively increase the value of the company? Most likely the core nature of investment and return is not a trade off between social and financial interest but rather the pursuit of an embedded value proposition composed of both³⁶.

Any corporation acknowledges that pure financial performances may be necessary but not sufficient reasons to gain real trust from the different stakeholders³⁷. I would argue that a firm cannot maximize the value of the company if it ignores the interests of its stakeholders³⁸. More and more, business leaders will need to include non-financial and even intangible objectives to maximize or increase the value of a corporation. The key of success of a company is achieving outstanding financial returns, but also to focus on corporate social performances (CSP)³⁹ – which is likely much more intertwined with organizational effectiveness than previously believed. Such CSP requires recognition that stakeholder management⁴⁰ and thus business relationship management is becoming more and more a core competence in addition to its strategic competitive forces. Obviously the management of routine aspects of each corporation-stakeholder linkages within a specialized framework (e.g. investor relations, human resources management, public affairs) remains important⁴¹. However, establishing and maintaining favorable relationships with all stakeholders based on or facilitated by reciprocal trust has to

³⁶ EMERSON, J., "The Balanced Value Proposition: Integrating Social and Financial Returns", *California Management Review*, Vol 45, no4, Summer 2003, p37

³⁷ FRIEDMAN, Milton, "The Social Responsibility of Business is to increase its profits", Harvard Business School, Boston, originally published in 1970, 5p. I won't dispute Friedman's historical argument, but I will argue that other stakeholders have an impact on the company, beyond the shareholders' interest.

³⁸ POST, J.; PRESTON, L. & S. SACHS, "Managing the extended enterprise: the new stakeholder view", *California Management Review*, Vol 45, no 1, Fall 2002, p8

³⁹ LINGANE, A. OLSON, "Guidelines for Social Return on Investment", *California Management Review*, Vol 46, no3, Spring 2004, p116-134. CSR is sometimes also compared with the notion of Social Return on Investment which describes the social impact of a business or non profit organization's operations in monetary terms, relative to the investment required to create that impact and exclusive of its financial return to investors. In other words, SROI is a monetarization of the social benefits and costs relative to the financial costs of a company's operation, based on the NPV of these non-market aspects in monetary terms.

³⁹ HERENDEEN, James, "To whom are Corporate Executives Accountable?", *Challenge*, Vol 47, 2, March-April 2004, pp53-69.

³⁹ POST, J.; PRESTON, L. & S. SACHS, "Managing the extended enterprise: the new stakeholder view", *o.c.*, p22

³⁹ Corporate Social Responsibility needs to be analyzed in its own right. One should not blindly accept either a very broad and compelling definition of CSR, but a rather a very limited notion of CSR that can be properly monitored and applied. A too compelling and vague definition would only create confusion and increase unrealistic expectations of what companies can and should perform. I refer to the interesting critical work on CSR by HENDERSON, David, *Misguiding Virtue. False notions of Corporate Social Responsibility*, Westminster, IEA, 2001, 170p

⁴⁰ SMITH, Jeff H., "The Shareholders vs Stakeholders debate", *MIT Sloan Management Review*, Boston, Summer 2003, p85-90.

⁴¹ HERENDEEN, James, "To whom are Corporate Executives Accountable?", *Challenge*, Vol 47, 2, March-April 2004



become an integral part of the culture of an organization⁴². What really distinguishes high performance from the rest of the pack is their ability to maintain and leverage personal networks⁴³. Indeed, knowledge about the stakeholders (explicit and tacit, voluntary and involuntary) can enable it to increase efficiency of its operations, develop unique product-service offerings, and create (or overcome) barrier to entry. International mining companies for instance such as Newmont with extraction operations in remote areas have understood this very well, and even created the function of a “Community Project Executive Manager” to deal with these stakeholders in a proper and efficient way. If CSR refers to the obligations of a firm to society, or more specifically, the firm’s stakeholders (i.e how affected by corporate policies and practices)⁴⁴, then Newmont clearly took into account the different stakeholders, and did not only focus on its usual shareholders.

This ‘new stakeholders’ model implies a complex web of relationships in which trust with these critical stakeholders will determine the long-term value of the corporation. One of those stakeholders are local communities and citizens who will request the corporation to take its social responsibility⁴⁵. The trust in corporations is directly affected by the relationships of the CEO with the different stakeholders.

One of the obvious examples I am personally acquainted with are the ‘sweatshops’ of Nike and Reebok in Indonesia where the legal requirements of minimum salaries were met, but where international standards of labour conditions were blatantly crossed. The outrage of some NGOs, spoiling over to the hearth of the companies’ assets, its customers, made Nike and Reebok change their strategies and almost publicly apologize for their non ‘social corporate responsibility’. It is also obvious that customers and other stakeholders become much more demanding, increasing the stake for the corporations. It all boils down to the trust in the leadership of the company: to what extent can we trust the management team of this company? Such a ‘competitive’ demand requires the implementation of efforts that involve the company-wide recognition of the integrity of the leader and a commitment to the values and goals of the larger society. It is like a citizen – even be it a ‘company with limited liability’ – who will have to live by the rules of the society in which he resides.

⁴² POST, J.; PRESTON, L. & S. SACHS, “Managing the extended enterprise: the new stakeholder view”, o.c., p22

⁴³ CROSS, R.; DAVENPORT, Th.. & s. CANTRELL, “The Social Side of Performance”, MIT Sloan Management Review, Fall 2003, p20

⁴⁴ SMITH, C., “Corporate Social Responsibility: whether or how?”, California Management Review, Vol 45, no4, Summer 2003, p54.

⁴⁵ Corporate Social Responsibility needs to be analyzed in its own right. One should not blindly accept either a very broad and compelling definition of CSR, but a rather a very limited notion of CSR that can be properly monitored and applied. A too compelling and vague definition would only create confusion and increase unrealistic expectations of what companies can and should perform. I refer to the interesting critical work on CSR by HENDERSON, David, Misguiding Virtue. False



Creating and maintaining trust in and by one's stakeholders requires a 'humanistic' commitment beyond pure financial return on investment. Such a commitment to the integrity of the individual necessarily implies a respect for individuals, groups, other organizations and the general public. Stable and supportive stakeholder relationships are built over time on the basis of trust and reputation. The mutual interactions with a favorable network of stakeholders generate competitive advantages for the firm and for society as well. If an entrepreneur or business leader is able to 'grasp' the double standards values of his/her organization - i.e. financial and non-financial values - he most likely has been able to reconcile both the corporate financial objectives and corporate social and moral objectives to a reasonable high extent. "Companies that address the social concerns surrounding contentious markets may well find the effort rewarding⁴⁶."

I have argued that the notion of trust – lubricating socio-economic transactions - could be interpreted as an expression as symbolic capital and further transformed in economic, social and to a lesser structural capital – all intangible assets. Nevertheless, to bring this notion into mainstream management will require some more and convincing indebt research, despite the fact that is widely accepted that the value of an organization is the summation of physical or tangible assets and intangible assets. Finally, focusing on an entrusted leadership and improved Social Corporate Responsibility (a non-financial objective) will most likely increase the overall 'comprehensive' value (intangibles and tangibles) of a company.

I believe that the importance of 'trust' gluing relationships between major stakeholders has been proven of utmost importance in improving both corporate financial and non-financial or corporate social performances.

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⁴⁶ COGMAN, D. & J. OPPENHEIM, "Controversy incorporated", The McKinsey Quaterly, no4., 2002, p57. The authors argue for matching the two seemingly contradictory goals: satisfying the investors' expectations for progressive earnings

