

The Trust Study

The next step in the evaluation of the Chamber Seal and Global Trust Registry

In response to the ICC's interest and its management's participation in recent meetings, an agreement to investigate proposals made by eNotus was reached. This included the preparation of a SWOT Analysis and comparison with the Chamber SEAL of the proposed Global Trust Registry: eNotus agreed to examine the proposal further and as a result are recommending conducting an in-depth 'Trust Study'.

Citizens and business want to be surrounded by innovations and technologies that bring transformation and real progress. The justification for this project is increasingly important and taking timely action to transform this vision of the Registry into reality will provide a market pioneering position for the Registry project and be of great benefit to the ICC, member chambers and business.

Basic parameters and reasons for the Study

The raison d'être of the Trust Study is to facilitate acceptance of the Registry project, in the sense of clarifying the purpose of the Registry and the data sets it contains and how the Registry will assist in improving business relationships by fostering a climate of Trust.

The planning for the Trust Study although a significant research project in its own right should be developed in parallel with the business case for the Registry.

It is essential to establish the basic parameters of the study as soon as possible through discussions with the ICC and other partners before drafting the complete terms of reference. These should include the coverage and scope of the various elements, chapter headings, and time schedule. This will be a key part of the arrangements to be made with the various individuals and entities such universities, research institutes and experts chosen to prepare the different sections of the study.

Parameters may include, but are not limited to:

- Objectives
- Coverage (i.e. sections, executive summary, etc.)
- New research required, or synthesis and consolidation of existing material
- Timeline
- Budget
- Publication, promotion and diffusion of the result

Trust is a basic concept in business management studies. It is a socio-economic factor contributing to the facilitation of business relationships. Lack of trust is certainly an impediment to the conduct of business and a drag on economic prosperity. A whole network of trust-intermediaries has developed over time. There exists a wide

spectrum of public and private sector intermediaries that influence trust, from the “hard” to “soft” (national and international civil and criminal law on the one hand and public relations / advertising on the other represent perhaps the extremes of this spectrum). In between, we have banks, lawyers, insurers, guarantors, brokers, advisers, information service providers, professional bodies, and of course chambers of commerce. When discussing trust, there is a danger of slipping too far towards the “soft” end of the spectrum and the digital online world has created many new concerns and complexities.

The ICC's role in the Trust Study

The International Chamber of Commerce should play a key role providing expert opinion, panel reviews, industry discussion and interviews and the publication and diffusion of the Study and its results.

There is a role for chambers and other institutions and providers of “trust services” in fostering trust and they should be included. These include:

- business organisations (ICC, national and municipal chambers)
- badges, seals and standards organisations
- Information service providers (business data) such as Dun and Bradstreet and Equifax
- Rating agencies such as Moody's Fitch and S&P
- e-commerce: CAs, TTPs, etc.
- universities and research Institutes

Focus on B2B – the trust concept

The study will principally focus on trust in the B2B environment. Factors that contribute to the perception of a firm's or industry's trustworthiness will also apply in the B2C environment. More business leaders are discovering trust as a core management competency. As trust affects everything in an organisation and everything it does it is possibly the most powerful and influential factor in business relationships. Trust should be looked upon as the currency of the new economy given the reality that we are in an increasingly low-trust world.

Trust has a multitude of definitions and is both a noun and a verb, both a value and a competency. Zaheer et al. (1998)¹ defines trust as (in the context of business), “The expectation that an actor (1) can be relied on to fulfil obligations, (2) will behave in a predictable manner, and (3) will act and negotiate fairly when the possibility of opportunism is present.”

Trust has been described in a Watson Wyatt study as an economic driver and showed that High Trust organisations outperformed Low-Trust organisations by 286 percent in total return.

¹ http://www.propatalliance.com/trust_definition.html

Factors influencing Trust

The concept of trust is the 'focal point' of a number of factors relating to confidence that influence decisions to engage in a particular business activity, transaction or investment.

It is clear that good business information is an important element in creating a climate of confidence and an environment of trust. The study will examine the ideas proposed to make the Registry - information and knowledge rich, with unique micro business information and aTrust score system.

Trust infrastructure (governmental, international, societal, etc.) will be a component of the study with research into the following:

- Legal and regulatory framework, enforceability
- High-trust vs. low-trust societies
- Standards
- Chambers
- Professional bodies
- Trade membership organisations

Role of intermediaries

- Agents, brokers
- Financial institutions
- Rating institutions

Individual trust-building

- Reputation
- CSR
- Credit rating etc.

Related concepts affecting Trust

- Risk
- Security
- Insurance

Quantification

Although developing metrics and indicators could be a worthwhile goal of the study, they should be focussed on those aspects of trust that can be supported by data.

Risk

The study will be also considering the concept of risk alongside that of trust. It is a countervailing factor in the decision to do business or make an investment. There are several elements of risk involved in business, but the main two to consider are the risks associated with financial institutions and intermediaries; and with the other firms with whom a business relationship is being contemplated.

Various methods of risk evaluation have been discussed, for example the VaR (Value at Risk) coefficient has been used in financial transaction management by institutions and subsequently even by regulatory authorities that attempt to set ground rules intended to bring stability and confidence to markets.

Although the mathematical underpinnings of such concepts as VaR are sound enough it isn't sensible to use them as the basis for trading or business decisions. One reason is that when markets are involved, it is not the "real" risk (of the value of an investment heading in the wrong direction, of a supplier not delivering, or customer not paying, or becoming insolvent) but the *perception* of risk that is crucial, and may be something quite different. This can skew any calculation of a "risk index" and comes closer to the issue of how to build trust. Another is that risk is subject to sporadic low-probability catastrophic events as well as normally-distributed profit-loss probabilities (which is why VaR has been described by one commentator as "an airbag that works fine until you have a crash").

Security

This consideration is mainly related to electronic commerce rather than physical protection. Electronic commerce needs a separate section where certification, authentication, non-repudiation, etc. can be discussed along with cryptographic issues.

Insurance

Together with conventional insurance, transportation and logistics insurance, etc., warranties (and their scope of validity) this section could treat industry compensation schemes such as ABTA (Associations of Travel Agents) whose Arbitration Scheme may compensate holiday makers whose travel companies go bust. Insurance companies (or their trade bodies) have an interest in fostering a high-trust environment in which business transactions tend not to fail because of a breakdown of trust and thus should be interested in supporting the Study.

Electronic commerce changes the game

A major revolution began in the 1980s with the take-off of electronic commerce and the transformation of the landscape in regard to trust. Adapting to the electronic era was tricky and it has led to the creation of a number of new players. Likewise, concerning trust, there has been some disintermediation but creation of a whole set of new intermediaries. Many existing institutions had to make radical changes to

their structures and business offerings. Although electronic commerce as we now understand it really became significant only with the opening up of the Internet, and accelerated with the roll-out of the world wide web, the seeds of this revolution date from much earlier, for example with agreements on EDI (Electronic Data Interchange) standards.

In discussing trust with respect to electronic commerce applications, language sometimes sounds the same as it did when discussing traditional commerce. The same words are used but with different, or special, meanings. "Trust" itself is an example, "certification", "authentication" and so forth are others. Encryption technology providers, verification and certification services, trusted third parties, and so forth are part of these new developments that foster confidence in business between partners who don't *a priori* know each other.

The Trust Study will embrace both traditional and electronic commerce – therefore it will be relevant to business in both the developed and developing world and of value to all sectors of industry. It is for International business reasons that eNotus sees the next step in evaluating the proposed Registry as the Study and believes there is a natural fit for the ICC to participate.

More Details of Sections of the STUDY.....