

# Measuring Trust in Business

Trust is a vital element of business, yet it is difficult to measure and often gets overlooked. Two research groups have devised their own rating systems to determine which companies are most trustworthy.

Trust isn't one of the four overarching ethical principles contained in the *IMA Statement of Ethical Professional Practice*, but it is certainly an inevitable outcome from the application of honesty, fairness, objectivity, and responsibility. Trust underpins the practice of each of those principles, and only with trust can business transactions be entered into with confidence. A company's use of trust as a basic business strategy allows it to demonstrate superior performance on a number of other metrics. Being able to quantify the trustworthiness of a company would be valuable information to both investors and the general public. Two groups, Governance Metrics International's Audit Integrity (AI) service and Next Decade, Inc.'s Trust Across America™ (TAA) unit, have been attempting to do just that. Both have published lists of the most trustworthy companies in the United States.

## Audit Integrity

For the past seven years, the Audit

Integrity service of Governance Metrics International has been applying the Accounting and Governance Risk (AGR) rating to identify the existence of factors most associated with fraud and the risks of a decline in stock price. The AGR rating serves as the basis for the *Forbes Risk List* and involves more than 100 factors that attempt to measure the quality of corporate accounting and management practices. AI believes the resulting score demonstrates solid corporate governance and management. Companies must have a market capitalization of \$200 million to be considered.

In April 2010, *Forbes* published AI's list of the 100 Most Trustworthy U.S. companies in three categories of market capitalization. In addition to the AGR score, AI's evaluation of trustworthiness uses additional factors that penalize companies for unusual or excessive executive compensation, a high proportion of incentive-based executive pay, high levels of management turnover, substantial insider trading, class action litigation, and restatements or other accounting issues. Fewer than 5% of public companies make AI's Most Trustworthy list.

The nine top-ranked

companies—three in each of the large-, mid-, and small-cap categories—based on the average AGR score for the last three calendar quarters are:

- ◆ Bed Bath & Beyond, Inc., a \$7.8 billion retailer, largely in the U.S. and Canada, specializing in domestics merchandise and home furnishings;
- ◆ Enbridge Energy Partners, LP, a \$5.7 billion provider of oil well services and equipment;
- ◆ Hess Corporation, a \$34 billion global integrated energy company;
- ◆ Montpelier Re Holdings, Ltd., a \$748 million provider of customized reinsurance and insurance solutions;
- ◆ Werner Enterprises, Inc., a \$1.8 billion global transportation provider of freight management and supply chain solutions;
- ◆ Casey's General Stores, Inc., a \$4.6 billion owner, operator, and franchisor of convenience stores, largely in the midwestern U.S.;
- ◆ Greenlight Capital Re, Ltd., a \$415 million Cayman Islands-based open market property and casualty reinsurance company;
- ◆ National Interstate Insurance Company, a \$309 million insurer specializing in transportation risks; and

- ◆ CDI Corporation, a \$926 million provider of engineering and information technology, outsourcing solutions, and professional staffing.

## Trust Across America

In December 2010, Next Decade, Inc.'s Trust Across America™ unit published its ranking of trustworthy corporations. Based on data from 3,000 public companies, TAA utilizes five indicators of trustworthy corporate business behavior: financial stability and strength, accounting conservatism, corporate integrity, transparency, and sustainability. Scores on each of these factors are weighted equally. The analysis attempts to identify companies that embed trustworthy business behavior in their corporate culture.

Hess Corporation was named by TAA as the Most Trustworthy Public Company of 2010. The Hess website indicates the company's six core values that represent its collective conscience and are embedded throughout the organization: Integrity, People, Performance, Value Creation, Social Responsibility, and Independent Spirit. Hess says its business is committed to "long-standing relationships built on trust." The company also notes it has received specific recognition for its sustainability efforts.

The other Top 10 companies ranked by TAA in 2010 represent a wide spectrum of industries:

- ◆ Albemarle Corporation, a \$2.4 billion U.S. producer of specialty chemicals;
- ◆ Best Buy, Inc., a \$50 billion, largely U.S. specialty retailer of consumer electronics;

- ◆ Cummins, Inc., a \$10.8 billion global firm that designs, manufactures, distributes, and services engines and related technologies that provide power to various industries;
- ◆ Eastman Chemical Company, a \$5.8 billion global producer of more than 1,200 chemicals, fibers, and plastics;
- ◆ Lexmark International, Inc., a \$4 billion global provider of printing and imaging products, software, solutions, and services;
- ◆ Lubrizol Corporation, a \$1.3 billion global producer and distributor of specialty chemicals;
- ◆ Sonoco Products Company, a \$4 billion global manufacturer of consumer and industrial packaging and provider of packaging services;
- ◆ Texas Instruments Inc., a \$14 billion global manufacturer of semiconductors; and
- ◆ USANA Health Sciences, a \$518 million developer and manufacturer of nutritional supplements, healthy weight management, and self-preserving personal care products that it sells directly through associates to global consumers.

## Difficulty in Measuring Trust

Measuring and rating trust isn't an easy, straightforward task, and more work needs to be done in refining how we measure it.

The AI list shows surprising volatility in AGR scores over a short period of time. In August 2010, *Forbes* published updated AGR scores and rankings for the 382 highest-ranked trustworthy companies. Comparison of this

list with the April 2010 data shows considerable change in rankings. The apparent instability of AGR scores is somewhat surprising since you wouldn't expect the characteristics being measured—solid governance and good management practices—to vary in such a short period of time. In the August list, AI highlighted 104 (27%) of the 382 companies that had consistently met Most Trustworthy criteria for five years or longer. (To allow analysis from a longer-term perspective, only the rankings of these companies were used for comparison with those on the April list.)

Of the nine described as Most Trustworthy in April, only Hess Corporation survived as one of the 26 highest-ranked in the August list. Werner Enterprises, Inc. and Enbridge Energy Partners remained in the top 10% of companies. National Interstate Insurance Company and CDI Corp. had high scores but hadn't qualified as Most Trustworthy for five years. Casey's General Stores scored much lower, and Bed Bath & Beyond, Montpelier Re Holdings, and Greenlight Capital weren't listed among the 382 highest.

There are two possible explanations for the significant changes in the evaluations of relatively static conditions such as overall trustworthiness: difficulties in measurement or the inability to measure the proper variables. Unlike a number of organizations that prepare lists of "best" companies on varying criteria, AI doesn't ask companies to submit data themselves and appears to use only publicly available data. Conse-

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## Ethics

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quently, self-selection bias should be minimized.

It's quite possible that the AGR scores reflect the probability of downside risk very well, but the dilemma here is that trustworthiness may not necessarily be the converse of a lack of downside risk. For example, an ineffective board of directors and poor internal controls may well be closely associated with the risk of massive embezzlement, like that experienced by Koss Corporation, but even a highly effective board may not be able to guarantee trustworthiness throughout the organization.

In addition, the differences between the TAA and AI lists show the different approaches and varied opinions regarding the metrics that best indicate a company's trustworthiness. In comparing the two lists, Hess is the only company that appears on both, and none of the other nine TAA selections is included in the AI list of 382 most trustworthy companies.

In the end, both TAA and AI are to be commended for bringing attention to the critically important ethical topic of trust in business. The TAA website says, "Many people believe...that companies across the entire country, and perhaps the world, cannot be trusted." Hopefully, the success of trustworthy organizations will motivate more companies to adopt best practices. As Thomas Friedman wrote in *The World is Flat*, "It is trust that allows us to take down walls, remove barriers, and eliminate friction." Trust allows innovation to occur and the organizations that harbor it to

flourish. More effort needs to be expended on setting standards for trustworthiness and measuring them appropriately. **SF**

*Curtis C. Verschoor is the Ledger & Quill Research Professor, School of Accountancy and MIS, and an honorary Senior Wicklander Research Fellow in the Institute for Business and Professional Ethics, both at DePaul University, Chicago. He is also a Research Scholar in the Center for Business Ethics at Bentley University, Waltham, Mass. His e-mail address is [curtisverschoor@sbcglobal.net](mailto:curtisverschoor@sbcglobal.net).*