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Sub-theme 02

## **‘To Hell with it’: A case-study examination of organisational trustworthiness, and dependent stakeholder-organisation relations in the Milaki plant.**

### **Introduction**

This paper investigates trustworthiness and dependent stakeholder relations with a contextualised case-study of the Milaki plant in Greece, owned and operated by a multinational concrete aggregates firm. We investigate the opinions of community stakeholders concerning operational decisions made by the case-study firm in multiple challenging contexts (e.g. the Greek economic recession). We focus on the community stakeholder with regard to trustworthiness of the firm i.e. ability, integrity and benevolence (Mayer et al., 1995). With this novel emphasis on the dependent (less powerful) stakeholder of the local community, we can make a contribution by bringing together the stakeholder literature with the literature on trust (Greenwood and Van Buren, 2010). How organisational trustworthiness unfolds in the organisation-stakeholder relationship is under-researched, especially in challenging contexts. This focus enables us to shed light upon how decisions perceived as ethically questionable by the community, and which potentially breach trust, change the dynamic of dependent-stakeholder to organisation relationship. The impact of this change and the subsequent implications of it for the stakeholder-organisation relationship will be explored in the full paper.

### **Stakeholder Theory**

Firms adopt corporate social responsibility (CSR) processes and practices including the language of stakeholder theory in an effort to attain and maintain the legitimacy of their organisations (Gregory and Whittaker, 2012). The case-study firm in question also adopts the language of stakeholder theory in strategic documents such as its annual report and annual sustainability report. Alvesson (2012) notes the social and political pressures on organisations

to develop such a public image of social responsibility. Another way of conceptualising these issues of legitimacy is through whether organisations possess the *trust* of relevant stakeholders. The literature on stakeholder theory is vast, and reviewed comprehensively elsewhere (Lee, 2008). However the literature also highlights there has been relatively little theoretical or empirical attention paid at the ‘micro-level’ (Tracey et al., 2011:62), for instance the stakeholder of the community and its agency.

This is particularly the case when it comes to community stakeholder *trust* in an organisation. Friedman (1970) sought to legitimise the view that ethics has no place in business except the ethic of profit-making as the *raison d’être* of business firms; although there are some challenges to this (e.g. Doh and Guay, 2012). Challenges include the stakeholder approach which is often incorporated in the strategic documents of firms such as in our case-study (Freeman, 1984, Freeman and Reed, 1983). This research looks at stakeholder theory through a lens of trust as the defining aspect of a firm’s relationship with its stakeholders, specifically the local community-stakeholder.

Stakeholder theory claims ‘managers bear a fiduciary relationship to stakeholders’ (Freeman, 1984:xx). Freeman (1984) notes that business organisations operate in increasingly complex environments and should satisfy multiple constituencies or ‘stakeholders’ (Freeman, 1984:26). These stakeholders are ‘any group or individual who can affect or is affected by the achievement of the corporations’ purpose’ (Kolk and Pinske, 2006:60). There is a ‘maddening list of signals’ (Mitchell et al., 1997:7) on how the questions of stakeholder identification can be answered. The list is maddening as stakeholders can be either primary or secondary stakeholders. That is the owners of capital, suppliers and employees on one hand, and those less easily quantified owners of common capital such as the community stakeholder in our case-study. With some exceptions (Gillespie et al., 2014; Greenwood, 2007), the question of power in stakeholder-relations is rarely examined. The assumption being that power remains with the owners and managers of the organisation, and these parties resist any other party seeking to take its place (Mitchell et al., 1997). The organisation is therefore more accountable to stakeholders which possess the ‘power, legitimacy and urgency’ (Mitchell et al., 1997:19) which dictates stakeholder saliency. This is the reason we call the community-stakeholder the ‘dependent’ stakeholder.

## Trust

Most definitions of trust entail a three-stage process (McEvily et al., 2003): trust as a belief, where one party assesses the other party's trustworthiness (Lewicki et al., 1998); trust as a decision, where one party, based on its previous beliefs, has 'the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another' (Rousseau et al., 1998:395); and trust as an action, where, according to Mayer et al. (1995) the parties engage in risk-taking activities after having evaluated their target's trustworthiness. They suggest three factors of trustworthiness: *ability* – set of skills and competencies that will enable a party to perform reliably (ibid:717), *benevolence* – suggests attachment to the other party, the extent to which the other party is believed to be concerned for the trustor (ibid:718) and *integrity* – the trustee's adherence to certain principles acceptable by the trustor (ibid:719). They propose that the level of perceived trustworthiness depends on the existence of these three factors and emphasize that a lack of any of them would weaken trust.

Whitener et al. (1998:513) use a three-faceted definition: a) 'trust in another party reflects an expectation or belief that the other party will act benevolently', b) 'trust involves a willingness to be vulnerable and risk that the other party may not fulfil that expectation' and c) 'trust involves some level of dependency on the other party'. Similarly, Robinson (1996:576) defined trust as a person's 'expectations, assumptions or beliefs about the likelihood that another's future action will be beneficial, favourable or at least not detrimental'. In a slightly different conceptualisation, Barney and Hansen (1994) portray trust as mutual confidence that there will be no exploitation of each other's vulnerabilities and continue to describe trustworthiness as an idea that characterises someone who will not exploit the other party and is worthy of the others' trust.

When examining the trust relationship between the organisation and its stakeholders, and more specifically the local community representatives, such trustworthy behaviour would mean that the company has to demonstrate competency in its operations (ability)(A), awareness and active acknowledgment of the other party's concerns (benevolence)(B), and adherence to corporate social responsibility principles *acceptable* by the community (integrity)(I). It is argued that if the company fails to provide evidence of these, it will contribute to a breach of trust and thus the weakening of the relationship between the company and the community stakeholders. According to stakeholder literature, this can

threaten the long-term sustainability of the company in that area: we aim to investigate this assumption.

### **The research problem**

The literature linking trust and stakeholder-organisation relations is scarce. A systematic literature review using the keywords of *stakeholder* and *trust*, and limiting the results to journal articles from the *Social Sciences* and *Business, Management, and Accounting* fields in the last 20 years (from 1995 to present) results in fifty-five articles. One of these added trust and trustworthiness to the study of organization-stakeholder relations for the first time arguing that: ‘trust is a fundamental aspect of the moral treatment of stakeholders within the organization-stakeholder relationship’ (Greenwood and Van Buren, 2010:425). In their theoretical paper, they argue that trust is the only option for dependent stakeholders when interacting with an organisation. Our paper will empirically explore how the stakeholder-relationship unfolds when beneficial, favourable or at least not detrimental behaviour ends, and when a breach of trust is perceived by the vulnerable dependent-stakeholder.

### **Research design and methods**

Case studies, as a research strategy, ‘focus on understanding the dynamics present within single settings’ (Eisenhardt, 1989:534) and are preferred as a method ‘when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within its real-life context’ (Yin, 2003a:1) and in which multiple sources of evidence are used (Yin, 2003a). The case-study approach was deemed as particularly suitable to answer this project’s research problem, in that it allows an understanding of stakeholders’ experiences and relationships to emerge within the specific context. To understand the role of trust in shaping the organisation-stakeholder relationship, one must study and analyse the particular conditions relating to that context and within that context, and a case-study strategy provides the necessary tools for this.

Multiple data collection methods provide triangulation of the evidence and strengthen the findings (Eisenhardt, 1989). It is also important to develop strategies with the purpose of enhancing validity and reliability, in order to address any potential research criticisms (Silverman, 1993). To achieve data triangulation (Creswell and Miller, 2000) the following data collection techniques were used: a) twenty-two semi-structured interviews b) official

public documents were gathered and c) audio-recordings of public, and city council meetings were made. The interview participants included the outgoing and incumbent mayor of Aliveri City – Milaki village is the community closest to the plant (0.2 miles), and is part of the city of Aliveri; four current city council members, five ex-city council members; five members of the environmental society (one of which is an active volunteer in another community team and another one is also a county council member); members of the ‘solidarity team of Aliveri’, the ‘womens’ society of Aliveri’, and the ‘association of Euboean studies – Aliveri branch’, and a prominent member of the local media.

The interview questions were focused on gathering data on participants’ opinions with regard to the firm’s operational decisions, its stakeholder-relations, and its demonstration or lack thereof of trustworthy behaviour. Public documents examined include strategic documents of the firm, local and national government reports and declarations, court documents, newspaper articles, radio interviews, and recordings focused on community reactions of the company’s decisions and the minutes of city council meetings that discuss the plant’s operation in the area.

### **The Milaki Plant case**

The relationship between the Milaki Plant (MP) and the local community in general could be characterised as smooth and stable until 2006. As seen from the company’s website, the company’s stakeholder strategy seemed to be to contribute to the community’s social and economic development. Examples of this can be found in the number of roads that the firm built in the local municipality, the building of a new office space for Milaki’s village council and a playground in the village. The biggest contribution perceived by the community was its employment of locals.

The decision to burn refuse-derived fuel (RDF<sup>1</sup>) as an alternative fuel for the operation of the Milaki plant in 2006 was perceived to have a negative impact on this relationship and especially the established trust with the local stakeholders, namely the local authorities and especially the town’s environmental society Environmental Protection Society of Aliveri (EPSA).

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<sup>1</sup> Refuse-derived fuel (RDF) is a fuel produced by shredding and dehydrating solid waste. RDF consists largely of combustible components of municipal waste. Although RDF is a fuel, it is still considered waste. Its storage, export and use must be done in accordance with the relevant regulations. (Environment Agency UK, 2014)

In 2006 the firm formally asked the Greek Ministry for the Environment, Energy and Climate Change whether a special permit was required in order for MP to burn RDF. They said not, but the relevant local authorities must be notified. However, these authorities then informed the Ministry that such a decision involves additional emissions from the plant. These pollutants would have the potential to cause environmental problems and thus an environmental impact report needs to be submitted by the firm to be evaluated within a public consultation format before a decision is made (consisting of MP representatives, academics, practitioners, the county and city councils and community representatives, where arguments for and against burning RDF would be heard).

At the same time MP tried to create a special committee, which never materialised, consisting of relevant plant staff and local authority agents that would review and evaluate emission problems. The environmental society, which according to its mission statement represents the local community's interests regarding the environment, was never invited to take part in this committee. After public consultation process the Ministry decided to approve the firm's request to burn RDF. This decision was then appealed by the local environmental society, Milaki village council and 'Citizens of Aliveri Association' (CAA) starting a long, costly and ongoing legal battle. A temporary decision to allow MP to burn RDF was taken in December 2013. Table 1 below provides a timeline of major events and decisions until now.

**Table 1:** Timeline of major events and decisions (Legal documents provided by the EPSA)

2006	Firm's Decision to burn RDF at MP
10/08/2007	Submission of initial environmental impact report from the firm to the Special Environmental Agency of the Ministry for the Environment, Energy and Climate Change to be evaluated in the public consultation process
31/10/2007	Request from local authorities participating in the public consultation process for resubmission of the environmental impact report, stating that its current form is inadequate and faulty

04/04/2008	Resubmission of environmental impact report
30/05/2008	Recommendation from the County's Environmental Agency to reject request to burn RDF
29/06/2009	Approval by the ministry for MP to burn RDF for the next 7 years
12/11/2009	Appeal of the decision to the Council of State (CoS <sup>2</sup> ) by the EPSA, Milaki village council and CAA
18/02/2013	MP request to the County Council's Department of Regional Development of Evia (DRDE) for approval to burn RDF
27/03/2013	Licence is granted by the DRDE's Director for the firm to burn RDF indefinitely
01/04/2013	Revocation of license by the County Council's Corporate Director (responsible for the County's region of Evia)
04/04/2013	Appeal of the above decision by the firm to the Court of Appeals of Piraeus
28/05/2013	Provisional Order of the President of the First Chamber of the Court of Appeals of Piraeus, temporarily suspending the revocation of the licence until a decision is made from the CoS on the 12/11/09 appeal

<sup>2</sup> The Council of State is the highest office where you can appeal such decisions

09/07/2013	A judgment of 09/07/2013 A2 Cassation Department of Administrative Appeals of Piraeus said the above injunction was revoked, i.e. overthrown after this Court declined jurisdiction and referred to the CoS for any further decisions on the matter
29/09/2013	Official complaint from EPSA to the County Council, City Council, the Police and the Environmental Inspectors notifying them that the firm is illegally (according to EPSA) transferring RDF for burning at its Milaki Plant
24/10/2013	Application to the County Council (addressed to the Chief Executive) from EPSA for re-evaluation of firm's application to DRDE and revocation of licence granted on 27/03/2013
05/12/2013	Revocation of licence granted by the County Council's Chief Executive on the grounds that it is illegal
17/12/2013	Appeal of the decision by MP to the CoS
18/12/2013	CoS decision for temporary suspension of 05/12/2013 decision until the hearing of the case by the CoS
January 2014	Final court date to resolve issue postponed indefinitely.



## Conclusion

The interviews are currently being translated and transcribed, prior to analysis. Therefore, in the full paper we will fully explore the main findings, implications, and potential contributions.

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