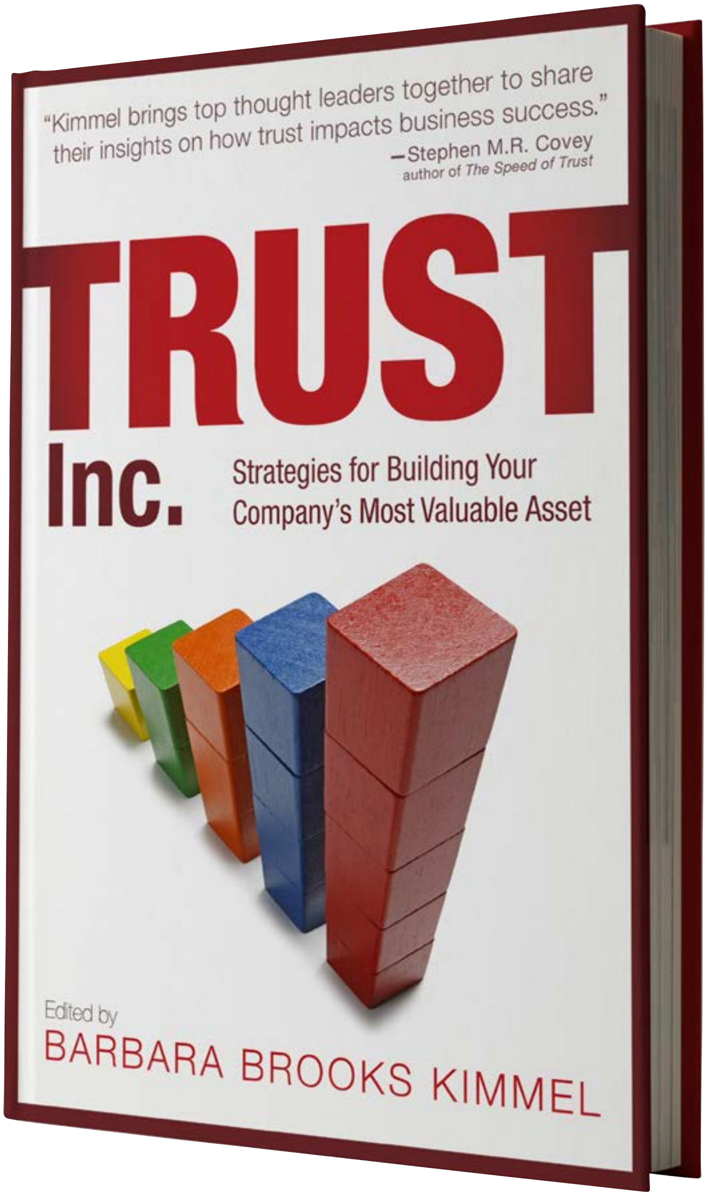

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- How trust works in practice
- What it takes to be a trustworthy leader
- How trustworthy teams impact business
- How to restore trust
- What the future holds in store

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The Business Case for Trust

By Barbara Brooks Kimmel and Charles H. Green

Trustworthiness — once exemplified by a simple firm handshake — is a business value that has suffered erosion. We see this in how the public has grown increasingly cynical about corporate behavior—with good reason. The PR firm Edelman found in a recent "Trust Barometer" survey that trust, transparency, and honest business practices influence corporate reputation *more than* the quality of products and services or financial performance.[1] And yet, scandals and bad behavior continue to pile up. Our view is that a company seriously interested in its reputation must increasingly focus not just on "business performance" as it is traditionally understood, but on being seen as trustworthy too.

We believe there is an important, material business case for trust. This doesn't mean that trust isn't or shouldn't be justified on moral or societal grounds. Of course it should. But trust makes for good business as well. This essay will put forth the business case for trust by exploring the gap between low- and high-trust organizations' performance. We will also offer a framework for assessing corporate trustworthiness, and point the way toward strategies for creating a trust-enhancing business model.

First, let's look at the costs of low trust.

How low trust affects stakeholder outcomes

Low Trust in Society. Business operates in a social context; because of that, low trust in society-at-large costs business. Indirect examples include the TSA airport security program ($5.3 billion[2], not to mention the impact on tens of millions of business travelers), and the criminal justice system ($167 billion in 2004). Both of these examples are funded by taxes on individuals and business.

1 Argenti, Lytton-Hitchins and Verity, Booz & Co., *Strategy & Business* Issue 61, Winter 2010
2 Consolidated Appropriations Act, 2012; US PUBLIC LAW 112–74—DEC. 23, 2011

Businesses also shoulder direct tangible losses from crime ($105 billion)[3], where they are often the victims.

A more obvious social cost for business is the cost of regulation. Economist Clyde Wayne Crews[4] releases an annual report entitled "The Ten Thousand Commandments" that tallies federal regulations and their costs. In 2010, the federal government spent $55.4 billion dollars funding federal agencies and enforcing existing regulation. In 2013, *The Washington Post* reported that "the federal government imposed an estimated $216 billion in regulatory costs on the economy (in 2012), nearly double its previous record."

Doing business in a low-trust environment is costly. Whether or not you believe that companies can, or should directly impact social conditions, one thing is clear. In aggregate, business bears a lot of weight for the cost of low-trust in our society.

Low Trust in Business Practices. Social costs on business, however, are just the tip of the iceberg. Far bigger costs are exacted by simple business practices. Consider the need for detailed financial audits. The Big 4 accounting firms' aggregate global revenue is $110 billion[5], of which about one quarter is made up of audits in the U.S.

Consider lawyers: there are over 1.2 million licensed attorneys in the United States, more per capita than in 28 of 29 countries (Greece being the 29th)[6]. The cost of the tort litigation system alone in the United States is over $250 billion[7]—or 2% of GDP[8]. It's estimated that tort reform in health care alone could trim medical costs by 27 percent.

All these are examples of transaction costs: costs we incur to protect or gain (we hope) larger economies of scale, markets, or hierarchies. Transaction costs add no value to the economy *per se*; they just foster favorable market conditions so that other economic factors (e.g. markets, scale economies) can add value. But there comes a

3 Criminal Justice in America, George Cole and Christopher Smith, 2007
4 of the Competitive Enterprise Institute, a non-profit public policy organization dedicated, in part, to advancing the cause of limited government
5 http://en.wikipedia.org/wiki/Big_Four_(audit_firms)
6 http://en.wikipedia.org/wiki/Attorneys_in_the_United_States
7 http://www.forbes.com/sites/mattkibbe/2012/01/19/americas-ongoing-tort-litigation-nightmare/
8 Matt Kibbe, "America's Ongoing Litigation Nightmare," Forbes, January 19,2012

point at which the addition of more non-value-adding transaction costs ceases to be positive and becomes burdensome. It's clear to us today that we are well past this point. A *Harvard Business Review* article from 8 years ago (*Collaboration Rules* by Philip Evans and Bob Wolf, July 2005) suggests that *nearly 50%* of the U.S. non-governmental GDP was, as of 2005, comprised of transaction costs. Imagine the impact of redirecting even a small proportion of these monies to value-adding actions.

Their research goes on to say that, in such an economy, the most productive investments are often not those that increase scale or volume, but those *that reduce transaction costs.* And the most viable strategy for reducing massive transaction costs? Trust.

Low Trust and Employee Disengagement. Disengagement occurs when people put in just enough effort to avoid getting fired but don't contribute their talent, creativity, energy or passion. In economic terms, they under-perform. Gallup's research[9] places 71 percent of U.S. workers as either not engaged or actively disengaged. The price tag of disengagement is $350 billion a year[10]. That roughly approximates the annual combined revenue of Apple, General Motors and General Electric.

According to *The Economist*, 84 percent of senior leaders say disengaged employees are considered one of the biggest threats facing their business. However, only 12 percent of them reported doing anything about this problem.[11]

What does disengagement have to do with trust? Everything. In a Deloitte LLP ethics and workplace survey[12], the top three reasons given for employees planning to seek a new job were:

- A loss of *trust* in their employer based on decisions made during the Great Recession (48 percent);
- A lack of *transparency* in leadership communication (46 percent); and
- Being treated *unfairly* or *unethically* by employers over the last 18 to 24 months (40 percent).

9 Gallup.com 2011/10/28 "Majority of American Workers Not Engaged in their Jobs"
10 Gallup Business Journal, 2002/4/15 "The High Cost of Disengaged Employees"
11 The Economist Intelligence Unit Limited 2010
12 Deloitte LLP, 2010 Ethics and Workplace Survey

A lack of trust in the employer is at the heart of each of these reasons. To the extent that plans to find a new job are a proxy for disengagement, the case is clear. Lack of trust drives away employees.

In discussing the survey, Deloitte LLP Board Chairman Sharon Allen notes:

> *Regardless of the economic environment, business leaders should be mindful of the significant impact that trust in the workplace and transparent communication can have on talent management and retention strategies. By establishing a values-based culture, organizations can cultivate the trust necessary to reduce turnover and mitigate unethical behavior.*

The survey also provides some interesting data on the business case for organizational trust. When asked to rate the top two items most positively affected when an employee trusts his or her employer, employed U.S. adults made the following top rankings:

- Morale (55%);
- Team building and collaboration (39%);
- Productivity and profitability (36%);
- Ethical decision making (35%); and
- Willingness to stay with the company (32%).

As Mary Gentile eloquently states later in this book, "Very often the most visible, most costly challenges to the public trust in business are fairly predictable: deceptive marketing practices; falsified earnings reporting; failure in safety compliance; lack of consistency in employee relations; and so on."

In other words, the ability to manage the costs of low trust –whether arising from society, from business practices, or from management practices—is to a great extent *within the control* of the corporation. And yet, it is largely not being done—with sadly predictable results.

How high trust improves stakeholder outcomes

That's the bad news about how low trust impacts business performance. Here's the compelling evidence for the positive results from trust.

Shareholders: In *Fortune Magazine's* "100 Best Companies to Work For," trust comprises 60 percent of the criteria and is the "primary defining characteristic," according to a study by Russell Investment Group. The companies in the list earned over ***four times*** the returns of the broader market over the prior seven years.

Think about that. Trust is identified as highly correlated with fourfold returns.

In a Towers Watson study on employee engagement, those organizations that have high employee engagement (which is driven by high trust), have higher revenue growth, lower costs of goods sold, and lowers sales, general and administrative expenses[13].

In a forthcoming book titled *Trusted to Lead*, author, trust expert and essay contributor to this book, Robert Porter Lynch, points to three industries—airlines, automobiles, and steel—where the high-trust companies are the clear competitive winners.

Lynch also conducted a survey of 2,650 senior managers, asking them to quantify the effect of high or low trust on 17 dimensions of performance. These include innovation, productivity, procurement, planning and coordination. The average results across all dimensions ranged over *50 percent* in each direction.

Customers: The positively correlated relationship between trust and buying behavior, while complex, is well understood and the subject of literally thousands of research cases. So rather than citing statistics, we suggest the (U.S. -based) reader merely observe their own reactions to these words:

Johnson & Johnson/Tylenol
Walter Cronkite
IBM

What comes to mind? Most people will easily note the strong emotional connection between the brand's trust connotation and the company's market performance.

13 2012 Global Workforce Study, Engagement at Risk: Driving Strong Performance in a Volatile Global Environment

Employees: A sincere interest in the well-being of another, whether customer or employee, is one of the defining characteristics of a trust-based relationship.

As leadership guru Warren Bennis says, "Trust is the lubrication that makes it possible for organizations to work."[14] In *Closing the Engagement Gap*[15], author Julie Gebauer identifies the number-one item driving employee engagement worldwide as "Senior management's sincere interest in employee well-being."

Suppliers, distributors and other partners: And finally, a Warwick Business School[16] study shows that partnering relationships based on trust experience a dividend of **up to 40 percent** of the contract.

That's it for a quick review of the cost of low trust, and the benefits of high trust. It's a strong business case. Now let's turn to action. As Frank Sonnenberg states in his book *Managing with a Conscience*, "If businesses are to thrive in the global marketplace, trust must be more than something that is talked about; it must be at the core of everything that is done."

A framework for assessing trustworthiness

We often hear, "Trustworthy business is important to our company, but we don't know where to start." So where DO companies start? One approach is to start by defining the level of corporate trustworthiness in a way that is measurable.

It's eminently clear to us, and the hundreds of business colleagues we've engaged with over the past two decades, that a lack of consensus around how to define and measure trustworthiness represents a still-unmet business need. That's why Trust Across America–Trust Around the World (TAA-TAW) created a framework to give stakeholders apple-to-apple metrics to define and compare organizational trustworthiness.

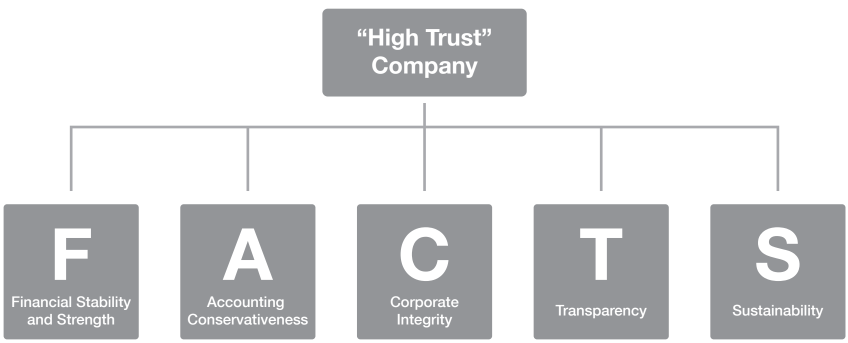
Says Executive Director, Barbara Kimmel, "After years of dialogue to get clear on definitions, TAA-TAW chose five quantitative markers, or indicators, of

14 http://www.brainyquote.com/quotes/quotes/w/warrengbe384360.html
15 Gebauer, Julie; Lowman, Don (2008-12-24). Closing the Engagement Gap: How Great Companies Unlock Employee Potential for Superior Results (p. 13). Penguin Group. Kindle Edition.
16 Cullen, Sara and Willcocks, Leslie P. (2004)IT outsourcing: carving the right strategy. General management review, 2004 (Jan-Mar). pp. 1-6.

trustworthy business. They are: **F**inancial stability and strength, **A**ccounting conservativeness, **C**orporate governance, **T**ransparency, and **S**ustainability, to which we assigned the acronym FACTS®. This particular framework for defining corporate trustworthiness, we believe, generates the broadest consensus about which factors to include. And, it has the virtue of being quantifiable."

In 2008, TAA-TAW started identifying data sources to populate this framework by aggregating dozens of data points that allow for financial and non-financial definitions of trustworthiness, and are available in data series form. As a result, today TAA-TAW can provide trust rankings and reports for over 2000 U.S. publicly traded companies, as well as making industry and sector comparisons and performing benchmarking studies.

Here's what the FACTS Framework looks like:



TAA-TAW completed the Framework in 2010 and began to review the performance of its tracked companies. Surprisingly (or perhaps not, depending on your viewpoint) it appears so far that perfection—at least from a "trustworthiness" standpoint—does not (yet) exist. In fact, over the past three years, no company has yet scored over 90 percent.

So far in this essay, we have talked about the business value of trust, and about an approach to defining and measuring the presence or absence of trustworthiness. While it's beyond the scope of this essay to lay out a definitive roadmap for implementation of trust initiatives, we'd like to end by broadly addressing this critical issue.

Trustworthiness in Action

Generally speaking, initiatives for improving the levels of trust in organizations can be classified into the following categories (many of which you'll see throughout this book):

Principles: Adoption of a values-level set of principles by which trust can be applied and delivered in specific situations. One example is the Federal Express *Purple Promise*.

Practices: Training for individuals in practicing and leading with trustworthiness in their behaviors and interactions. Examples are listening practices, feedback, and idea sessions.

Policies and Procedures: Ways of doing things that translate the principles above into organized group behavior. Examples of this are the structure of meetings, transparency of personnel policies, and how customer and supplier relationships are managed.

Protocols: Consciously defined activities, gestures and vocabulary for top leadership that help them be role models for trustworthy behavior.

Touching on all of the above, and to get you started on your own program, here is our own Top Ten list for how companies can increase trustworthiness:

#1 **Trustworthy leadership**—Very simply, a culture of trust cannot exist with an untrustworthy leader. Trustworthy behavior must start at the top and flow down through every manager in an organization.

#2 **Transformation**—Productivity and execution begin when the CEO creates a set of values and goals that are shared, accepted and adopted by all stakeholders. CEOs should regularly address all stakeholders about the steps being taken to build trustworthy behavior within the organization. Trust should not be confused with compliance. Being "legal" is not synonymous with being trustworthy.

#3 **Tools**—There are many trust tools CEOs can use to build trust with their internal and external stakeholders. These run the gamut from metrics and assessments to online surveys. The results may be surprisingly good, or just the opposite. And if they are the latter, and really bad, it's time to get busy. And maybe time to add a Chief Trust Officer to the C-Suite.

#4 Treatment- The Golden Rule says to "treat others the way you want to be treated." This certainly holds true for trust. The CEO that extends trust to his or her stakeholders is more likely to have it returned. Trust fundamentally works by a series of reciprocating actions between the trustor and the trusted.

#5 Teamwork—Teamwork leads to better decisions and better outcomes. Teams create trust, and trust creates teams. Breaking down silos, and in particular exhibiting trustworthy behavior in the C-Suite, should be on every CEO's priority list.

#6 Talk—Your stakeholders need to know what steps you are taking to build a trustworthy organization. Quarterly numbers are no longer the be all and end all. In fact, evidence is mounting that a trustworthy culture and "good numbers" go hand in hand. As mentioned earlier, long-term trustworthy behavior is *more* profitable—every quarter—than short-term changes that don't last.

#7 Truth—Truth-telling is at the core of trust. Any CEO who wants to build a trustworthy organization must have an extremely comfortable relationship with the truth. No company is perfect and it's not necessary to air all the dirty laundry—just don't lie about it or intentionally mislead. In times of crisis, a habit of truth telling yields particularly good returns. The absence of such habits can be disastrous.

#8 Time—Building a culture of trustworthy business does not happen overnight. It takes time, maybe even years—but not decades. The CEO who invests the time to educate himself or herself about how to build trust with teams and stakeholders — then develops a plan, communicates and implements it—will be rewarded with greater stakeholder trust. When a slip up occurs, those who "banked" trust will recover faster.

#9 Transparency—Merriam Webster defines "transparent" as visibility or accessibility of information, especially with business practices. Any CEO who thinks he or she can still hide behind a veil of secrecy need only spend a few minutes on social media reading what their stakeholders are saying. In today's world, transparency is no longer the risk—opacity has become the risk. Transparency must exist inside and outside the company. Communications and social media have roles to play here, but the fundamental is that transparency positively helps build trust.

#10 Thoughtful—Not all stakeholders need to know the company's trade secrets, or what the CEO had for dinner. But if your company is serious about increasing trustworthiness, consider engaging all your stakeholders in rich, thoughtful conversations. Don't approach them as constituencies to be maneuvered, managed or massaged. Instead, view them as vital contributors to a better organization by letting them into the conversation. To be a thoughtful company with a thoughtful strategy, trust the stakeholders to be thoughtful.

Being trustworthy is about doing business *differently*. That's not a platitude; it's a concept championed by Michael Porter (arguably the world's expert on competitive strategy, and no stranger to profit drivers) in his seminal 2011 *Harvard Business Review* essay, "Creating Shared Value: How to reinvent capitalism."[17] Perhaps the biggest difference in making business trustworthy is to practice putting trust, truth, and stakeholders first—and profit second. We know that this is a unconventional mindset. But one of the powerful by-products of behaving this way is that—paradoxically—profits end up *higher*, not lower, than if profit maximization had been the goal. We call that managing for trust, not profits. And for anyone still doubting its efficacy, we refer you back to Part 1. There is a business case for trust. Trust works.

17 Porter, Michael E. and Kramer, Mark, (2011, January), Creating Shared Value, Harvard Business Review

Barbara Brooks Kimmel

Barbara Brooks Kimmel is Cofounder and Executive Director of Trust Across America—Trust Around the World, the global leader in information, standards and data, and the "Who's Who" of organizational trust. As social innovators, the program's mission is to help enhance trustworthy behavior in organizations. Barbara creates, often through strategic partnerships, tools to foster organizational trust, programs to showcase top thought leaders, and research on trustworthy organizations. She also facilitates the growing Alliance of Trustworthy Business Experts, a group of global thought leaders who are collaborating to advance the cause. Barbara is also the President of Next Decade, Inc an award- winning communications and publishing firm. In 2012 Barbara was named one of "25 Women who are Changing the World *by Good Business International. She is a graduate of Lafayette College and has an MBA from Bernard M. Baruch Graduate School of Business at the City University of New York.*

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Charles works with complex organizations to improve trust in sales, internal trust between organizations, and trusted advisor relationships with external clients and customers. Charles spent 20 years in management consulting. He majored in philosophy (Columbia), and has an MBA (Harvard). A widely sought-after speaker, he has published articles in Harvard Business Review, Directorship Magazine, Management Consulting News, CPA Journal, American Lawyer, Businessweek, Forbes.com, Investments and Wealth Monitor, and Commercial Lending Review, and is a contributing editor at RainToday.com.