Industry Agenda

White Paper on Decoding the Complexity of Trust
Industry Perspectives

Leadership, Trust and Performance Equation Project Phase II (2014-2015)
Key Findings

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Acknowledgement

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Context

Trust underpins human relationships and interactions, from the personal and private to the professional and often very public. Trust is also a crucial element of companies' licence to operate and is increasingly on the minds of business leaders.

In response to a call from the Professional Services Governors in 2013, the World Economic Forum launched the Leadership, Trust and Performance Equation project. Phase I of the project (2013-2014) focused on making a clear business case for building trust and understanding the barriers to implementation. This culminated in the publication, *The Evolution of Trust: From Delivery to Values*.

Following phase I, there was strong interest in looking at trust through an industry lens. Thus, phase II of the project (2014-2015) explored how trust issues manifest at the industry level and how organizations can better translate the learnings into building trust.

By sharing key findings, this white paper intends to decode the complexity of trust. It does not intend to provide complete solutions but rather share examples and encourage more cross-industry learning.

Methodology

While phase I was strongly research-based, phase II was conducted through a dialogue series of four workshops held at Forum events in China, Turkey, the US and India (see Figure 1). The four locations were chosen based on the importance of trust in the event agenda, high and low trust cultural contexts, and the ability to attract a diverse mix of participants from multiple industries.

Each workshop was comprised of two sections. In the first section, participants were asked to look at a set of 12 predefined trust dimensions (see Figure 2), and then to choose the two which were most critical for their own industry. The results were shared and trends discussed. The goal was to identify and prioritize key factors in building trust by industry.

In the second section, participants were asked to share examples of actions taken by companies that had effectively built trust, or failed to do so. The goal was to look for common elements across those actions that had succeeded and failed, and to develop a collection of applicable trust-building practices. By sharing real-life challenges and solutions, participants were encouraged to learn from other industries, reflect on their own and apply the learnings to their individual companies.

In total, the workshops attracted 100+ participants from a wide range of industries, including financial services, professional services, pharmaceuticals, consumer goods, energy and telecommunications. As the project was anchored in the professional services industry, it is important to note that the majority of the participants (>50%) were from service-based industries, particularly financial services and consulting.

Figure 1: Trust workshop timeline

Figure 2: Illustration of trust dimension exercise

Key findings

As the purpose of this paper is to share insights and encourage further discussion, the key findings are structured around five questions:

1. What is the state of trust today?
2. How do trust issues vary from industry to industry?
3. Why is trust such a difficult problem?
4. Where are the false traps when building trust?
5. Who is the "face" of trust of our organizations?

1. What is the state of trust today?

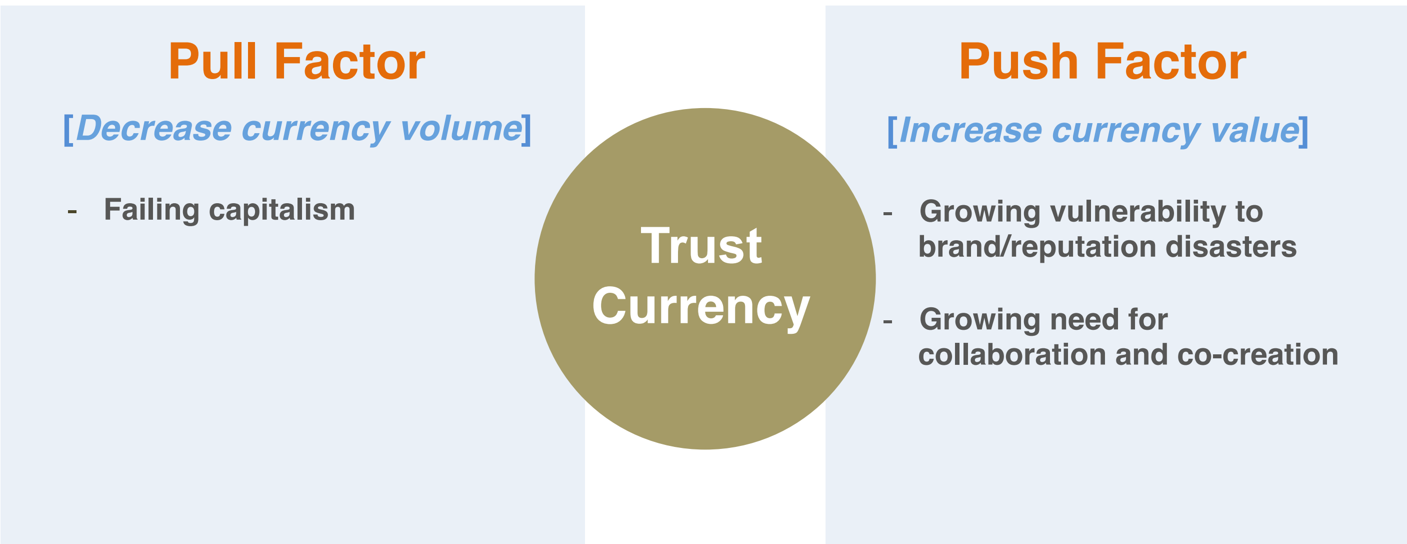
In the wake of a series of corporate scandals, accidents and poor policies, public trust in business is quite low. According to the Edelman Trust Barometer, business has been making progress with public trust since the Great Recession of 2008 but is still encountering "a reputation hangover". NGOs have the highest public trust, followed by business, the media and, finally, government. The recent Annual Global CEO Survey by PwC showed that more than 50% of CEOs surveyed regard trust as a major concern and a real threat for growth, a sharp rise from 37% who cited concerns last year.

What does that mean, then, for companies' licence to operate? "Trust, not money, is the currency of business and life," author David Horsager says in his best-selling book, *The Trust Edge* (2012). Through the workshop discussions, pull and push factors were identified in contributing to the growing importance of trust as a currency for business (see Figure 3).

Pull factor: The importance of trust currency grows because of a decrease of its total volume. Trust has declined, in part as a result of the perceived failure of capitalism, making it a scarce commodity.

Phase I of the project called for a "new settlement" between business and society, focused on creating multistakeholder value. Simply making money is no longer enough. What is required is a common understanding that aligns expectations on both sides (business and the society) and clarifies business' wider role and purpose beyond the creation of financial value. It is this understanding that will foster and rebuild trust. (*The Evolution of Trust: From Delivery to Values)*

Figure 3: Growing importance of trust currency for business



Echoing this sentiment, workshop participants spoke about capitalism as "failing the majority of the society" and how we have "created a system that is only driven by numbers" (Delhi workshop, November 2014). They cited problems in how leaders communicate their financial returns and corporate information, noting the common use of quarterly reporting which drives a short-term focus-and-reward system. The perceived failure of capitalism generates growing scepticism from the public and, consequently, reduces the trust currency volume in business over time.

Push factor: The importance of trust currency grows because of an increase of its unit value. Growing vulnerability to brand/reputation disasters and a rising need for collaboration and co-creation increases the value of trust a company already has (and can lose).

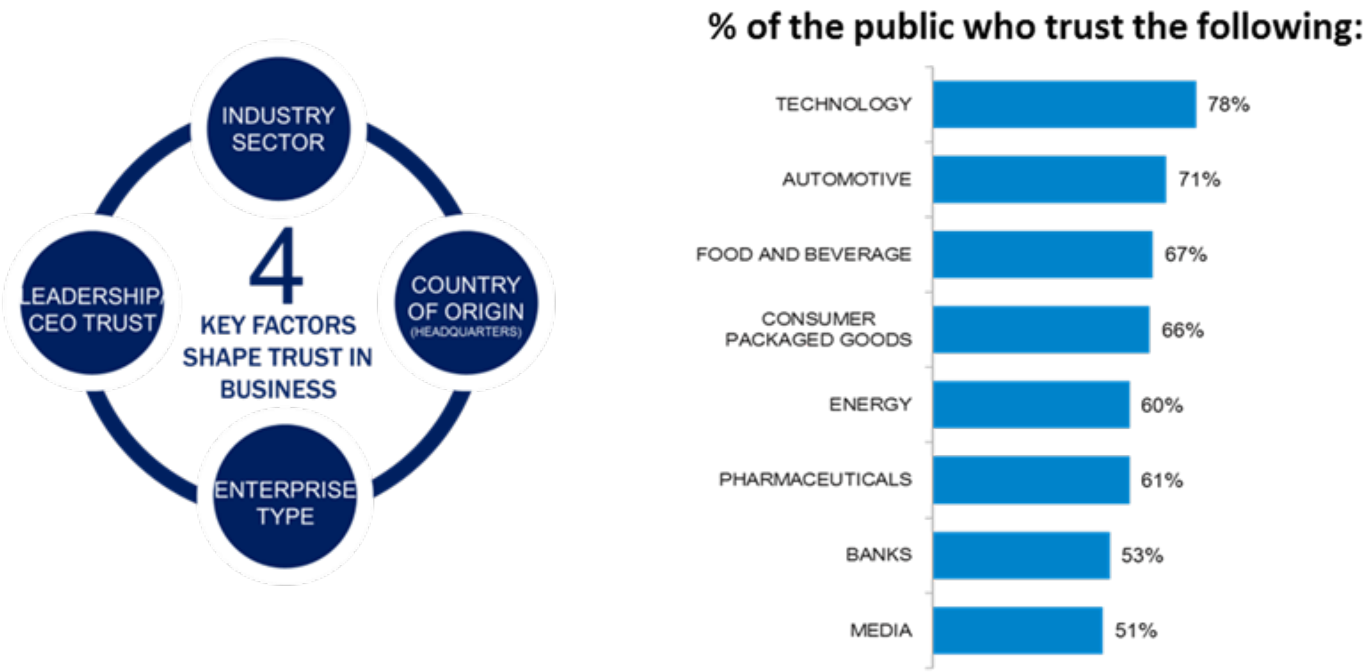
Participants argued that business today is much more vulnerable to losing trust than before. They felt that the consequence of losing trust appears to be more disastrous now than at any time in history. For example, the fortunes of BP and News Corporation shrank overnight as a result of events that marred their reputations. Participants also spoke about the speed and scale of change and the growing level of uncertainty and volatility in today's world. This requires more collaboration, co-creation, and "acting as one among all key actors" (Istanbul workshop, October 2014) to cope with the changing context.

Consequently, the demand for trust is higher and becomes essential for building effective and long-lasting relationships with customers, suppliers, employees and even competitors. Based on the results of the workshops, it appears that the value of trust currency has appreciated and is likely to continue to increase in the future.

2. How does trust vary from industry to industry?

If trust in business is low overall, is distrust in business spread equally across all industries? The Trust Barometer shows that there is actually a lot of variety. Technology and automotive are the most trusted industry sectors, while media and banks are the least trusted (see Figure 4). Clearly, industries with various kinds of visible failures have suffered a greater loss of trust.

Figure 4: Trust by industry 2015



Source: 2015 Edelman Trust Barometer

In the workshops, the following trends shown in Figure 5 emerged from the results of the trust-dimension exercise.

Figure 5. Trust dimensions – Industry results *(Harvey ball as per proportion of votes within each industry)*

TRUST DIMENSIONS	*Financial Services	*Professional Services	Telecom	Consumer Goods	Pharma	Engineering/ Construction	Technology	Energy	NGO
1. Quality of Products & Services	◔	●	●	●	◑	x	◔	◔	x
2. Accountability & Transparency	●	◑	x	x	x	●	◔	x	◔
3. Consistency & Stability	◑	◑	◔	x	x	◑	x	x	●
4. Leadership	x	●	x	x	x	x	x	x	●
5. Safety & Security	◑	x	◕	◔	x	◑	◔	x	x
6. Public Sector Engagement	◔	◔	x	x	x	x	●	x	x
7. Fairness & Inclusion	◔	◔	x	x	●	x	x	x	x
8. Legal Compliance	◑	x	x	x	x	x	x	x	x
9. Societal Engagement	x	◔	◔	x	x	◑	x	x	x
10. Environmental Stewardship	x	x	x	◔	◔	x	x	●	x
11. Remuneration	x	x	x	x	x	x	x	x	◔
12. Fiscal/Corporate Performance	x	x	x	x	x	x	x	x	x

* Financial Services include banking, insurance, and asset management firms; Professional Services include consulting, law, accounting and human capital firms

– *Quality of products and services together with accountability and transparency are seen as central to trust building*. These two dimensions were the most often selected, not only by the total number of votes but also by the number of industries. Some participants even argued that they were the prerequisites in building trust for all industries. It was speculated by participants that the selection results could have varied more for each industry if these two dimensions were taken out of the set.

– *Each industry appears to have its unique challenges.* For instance, participants from the financial services industry said that companies currently "live a dilemma of wanting to be transparent and yet feeling too scared to be transparent" (Tianjin workshop, September 2014). This is mainly due to the fact that companies' reputations continue to be heavily defined by the industry, which is struggling to rebound after the financial crisis. The energy industry uniquely chose *environmental stewardship* as its key trust factor due to the increasing pressure both from the public and government to better manage its impact on the environment, particularly in the wake of disasters such as the BP Deepwater Horizon oil spill. The technology industry identified *public sector engagement* as crucial because of the growing need to work with government not only on regulatory issues but also in applying technology to serve and engage the public.

– *The same trust dimension can manifest differently by industry.* For example, although *safety and security* were chosen both by financial services and construction industries, one refers to safety of information while the other of people. Consequently, the implications for solutions are very different.

– *Fiscal/corporate performance of a company appears to have little relevance to trust.* This is the only dimension which consistently did not receive any votes over the course of the four workshops. Some participants argued that "building trust contributes to financial performance, but not vice versa" (Delhi, November 2014). Others went even further to say that "fiscal performance and trust are inherently contradictory" (Tianjin workshop, September 2014). This echoes the earlier view that capitalism's profit-driven nature has at least partially caused the decline of the state of trust.

3. Why is trust such a difficult problem?

Although this question was not explicitly posed to the participants during the workshops, much of the discussion addressed the complex and dynamic nature of trust.

– *Trust as an asset appears inherently intangible and difficult to measure.* You could invest a lot in trust but you don't necessarily see what you get out of it (Tianjin workshop, September 2014). Even though there is an increasing sense of urgency for companies to build trust, the intangibility of this issue has made it a topic that is often seen as too soft to be examined in boardrooms. Hence, trust seems to become an overused word and yet an under-addressed problem in business. The five areas of benefit developed in phase I were designed to help companies understand the business case behind trust-building.

– *The landscape for trust-building is multifaceted and growing more complex.* It was argued that a variety of factors could influence the trust landscape of a company, such as its industry climate, stakeholders' interests, country of operation, etc. As the world becomes more interconnected and companies more global, the dynamics of those factors are growing more complex.

– *Trust-building often requires trade-offs.* Due to the complexity of the trust landscape, participants observed that their companies often have to make trade-offs when building trust. Satisfying one stakeholder may upset another. Meeting the regulatory standards of one country may cause issues in another. Winning trust sometimes means sacrificing short-term growth.

– *There appears to be a disconnect between how people perceive trust and the actions they take.* When asked to describe trust, people used emotion-laden words, such as honesty, integrity, security and vulnerability (see Figure 6). However, when asked to choose among the 12 trust dimensions in the first exercise, they prioritized non-emotional factors, such as quality of products and services, accountability and transparency over more emotionally charged categories, such as remuneration, leadership and societal engagement. Although the quality of products and services was voted most critical, some participants pointed out this could be a false assumption on the part of business. It is not necessarily a flawed product that destroys trust in a company but how the company handles the situation, as one participant commented.

This same disconnect was also identified during phase I, characterized as the "talking past" phenomenon. In this model, the public perceives trust in emotional terms of fairness, honesty, ethics and behaviour, whereas business tends to see trust in terms of delivery of products and services. Both are correct, yet they are out of synch and show a misalignment between how businesses and the public understand trust.

Yet, businesses are made up of people, who are also members of the public. So how can this disconnect exist? Do people really behave differently in different contexts? Do they make different decisions?

Figure 6. Words to describe trust *(Size of each word in proportion to the # of times the word was mentioned)*

4. Where are the false traps when building trust?
Throughout the workshops, the following common fallacies were identified regarding building trust:

Trap 1: Being compliant is equal to gaining trust. Legal compliance did receive some votes (only from the financial services industry). However, it was argued that often companies prioritize being compliant, negating the importance of changing the behaviours needed to build trust. For example, after the Deepwater Horizon oil spill in 2010, BP initially reacted with a focus on "compliance" instead of doing the "right thing".

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Don't get stuck with checking boxes. Do what really matters to build trust.

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Tianjin workshop, September 2014

Trap 2: Trust is built through marketing. You cannot market your way to trust, according to one participant. Participants were divided on whether a company should strongly communicate its good deeds, or whether this could be perceived as a PR exercise, not based on pure motives. One participant shared an example in which his company did not communicate actions it took to successfully deal with a customer service crisis. This choice was based on the action being "the right thing to do" and not motivated by potential PR gains. In his opinion, marketing to highlight actions that a company is obligated to do will likely backfire. There was no consensus regarding to what extent a company should share information on its efforts to build trust. However, it was agreed that a company cannot rely on communication efforts alone to build trust and that communication must be underpinned by real action.

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It is not necessarily a flawed product that destroys trust in a company but how the company handles the situation.

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New York workshop, October 2014

Trap 3: A company does not have to be trustworthy to build trust. It was recognized that the motivation to build trust underpins a company's behaviour. Does a corporation build trust because it has to or because it believes in the value of trust, even if it hurts profitability? Companies cannot examine their behaviours without first reflecting on their inherent beliefs. Are their actions driven by doing the right thing or by the fear of getting caught? After all, you cannot build trust without being trustworthy, according to one participant.

Trap 4: Managing trust is managing one's reputation. "Give up on reputation management and focus on behaviours that build trust." Ben Boyd, from Edelman, shared this principle of trust-building with participants at the New York workshop. Reputation cannot be controlled as it depends on how stakeholders perceive the company. What the company can control is how it behaves.

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Give up on reputation management and focus on behaviours that build trust.

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Ben Boyd, President, Practices, Sectors and Offerings, Edelman

Participants shared examples of behaviours that could support trust-building. One example showed how McDonald's recently launched a movement in Canada, New Zealand and Australia to be more transparent with its customers. Instead of using traditional phone calls and emails to address customers' questions, it created online videos, such as having food stylists demonstrate why the billboard hamburger looks different from the actual product. Its authenticity and transparency were effective in increasing customer trust.

5. Who is the "face" of trust of our organizations?
If trust is a human emotion and a company is an entity that can't emote, then how can a company build trust with people? The importance of the role of CEOs, chairs and leadership teams in demonstrating a company's behaviours was a recurring theme in all four workshops. The recent departure of Pimco's well-respected CEO Bill Gross, for example, illustrates that a CEO can be a trust asset in a company's efforts to build trust and not only a liability. It was also recognized that CEOs, as visible and critical as they are to representing an organization, cannot and should not be its only face of trust. On a daily basis, it is not the CEO but the people in the stores that build trust with customers (New York workshop, October 2014).

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On a daily basis, it is not the CEO but our people in the stores that build trust with our customers.

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New York workshop, October 2014

Closing remarks

Imagine a world where we have *complete trust* in one another and our institutions, including business, and in our teams, organizations and partners. How different is that world compared to the one in which we live now?

Our findings have pointed to some key challenges, possible barriers and feasible actions towards achieving this new world of trust. Yet, in this complex, emerging field of study, more questions emerged through the project, which are left to be explored by researchers and practitioners alike.

How can business and other key actors collaborate in building and rebuilding trust? What can be done to resolve the discrepancy between how trust is perceived and how it is built? What are the implications for business leadership in this context?

We are optimistic about the future state of trust, as long as leaders across business and other sectors continue to debate the topic, try new approaches and, most importantly, follow through on their actions and words.

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